

2024 EQUITY OUTLOOK

01

2024

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Investment: UNLU Yatırım Holding
Automotive: Ford Otosan, Otokar, Tofas, Turk Traktor
Aviation: Pegasus, TAV, Turk Hava Yollari
Conglomerate: Anadolu Grubu Holding, Alarko Holding, Enka Insaat
Defence: Aselsan
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Petrochemicals: Petkim
Retail: BIM, Mavi, Migros, Sok Marketler
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White Goods: Arcelik

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Treading a Thin Line

Global: The “Goldilocks” period is set to end. We see a higher-than-usual probability of the global economy losing significant momentum, with the EU and US tipping into recession in 2024. While the current investment landscape remains of the “Goldilocks” variety, we think the upside is limited globally for risky assets given already high multiples, even under a soft landing scenario. We expect the central banks’ rapid hiking, coupled with less help from the fiscal side and looser labor markets, to likely pressure global growth more in 2024. The EU and the US are likely to enter a hard or shallow recession. We consider the former to be more likely. Global risk assets, especially US equities that have been on the rise since Nov’23, could peak in January and decline significantly in 1H24. We think the risk-reward for emerging markets is more favorable than developed counterparts. We favor precious metals, especially gold, among our favorite asset classes, as peak Fed hawkishness is now behind us, and real rates should continue to decline, historically a bullish setup for gold. For commodities, we expect the anticipated recession to weigh down on demand, although Copper could deviate positively, especially in 2H24.

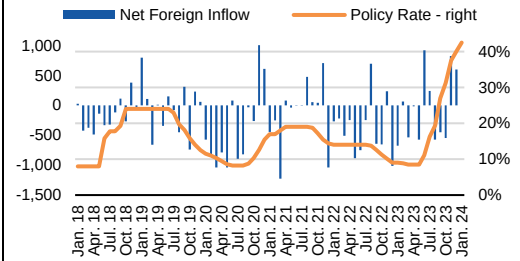
Türkiye: We have a cautiously positive outlook for the BIST. The BIST yielded a 36% return in TL terms but a 14% loss in USD terms in 2023. The key macro factor set to determine its outlook in 2024 is the effectiveness and duration of the new economic team’s disinflation process. Once the lagged effects of the interest rate hikes and tighter financial conditions on economic activity surface more clearly, the CBRT’s stance will be decisive. In our base case, we assume the CBRT will continue its policy normalization and data-driven stance before and after the municipal elections in Mar’24. Such behavior would attract foreign investors, probably to bonds initially and later stocks, in line with growing confidence in the sustainability of fixing macro imbalances and improving FX reserves. Additionally, with its highly rate-sensitive economy and foreign funding needs, we foresee Türkiye ranking among the prime beneficiaries of the FED’s rate cut initiation in 2024. Any positive outcome from EU Custom Union talks would also be supportive, at least sentiment-wise. Accordingly, while we are uncomfortable with companies’ weak near-term earnings and cash flow outlook due to the rising cost of funding and weaker demand both at home and abroad, we remain cautiously positive for the BIST at current levels. Our bottom-up 12M index target at ~11.5K offers 43% upside in TL terms and roughly flat in USD terms based on our year-end inflation assumption of 40% and USD/TL (eop) of 42.

What we like? We broadly preserve our defensive stance and still prioritize those stocks **well-equipped for high inflation** (e.g., pricing power, high gross margin), capable of preserving their cash stream in a high-interest rate environment (e.g., **low indebtedness**, low NWC needs), and **with the potential to capture higher foreign interest** based upon size and liquidity. Our Model Portfolio comprises **AKBNK, TSKB, BİMAS, THYAO, SOKM, AGHOL, AKGRT, AKSEN (new), MAVİ (new) ve TTKOM (new)**. We are overweight on Banks given their higher sensitivity to Türkiye’s declining risk premiums and potential to catch up with the Industrials after years of underperformance.

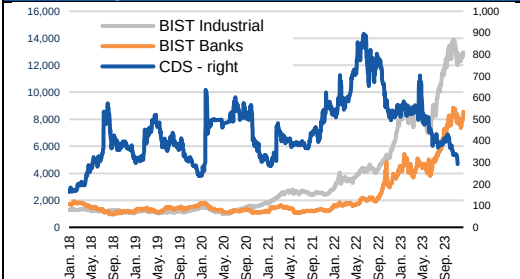
Main Risks: Any failure in capturing foreign inflow, early initiation of rate cuts, inertia in inflation expectations, low accumulation of FX reserves, lackluster earnings, and margin outlook on weaker economic activity, including exports.

The hot topic. Inflation accounting (IAS 29) Don’t worry, just accept it. IAS29 adjustment is ultimately an accounting restatement aimed at reducing the adverse impact of hyperinflation on historical accounting numbers, unlike Tax-code-based inflation adjustment, which would directly impact tax payables. Neither model yields a perfect solution, but at least represents a useful effort to allow better assessment of a company’s future value drivers based on key accounting-based metrics (e.g., gross margin, ‘ROE – COE’ or ‘ROIC – WACC’ spread). Post-IAS 29, we foresee the most pronounced changes in the financials of those names whose accounting-based margins and returns have hit historical highs over the past couple of years.

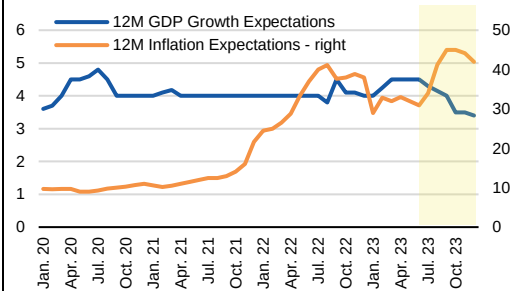
Post Election Normalization



Lowering CDS Favors Banks



A Tough Outlook for Companies



Key Stock Preferences

Model Portfolio:

- AKBNK
- TSKB
- BİMAS
- THYAO
- SOKM
- AGHOL
- AKGRT

Additions:

- AKSEN
- MAVİ
- TTKOM

Deletions:

- CCOLA

Global Outlook

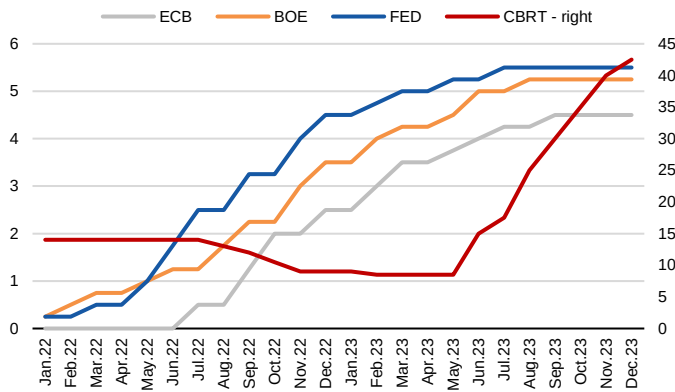
No return to the era of easy money any time soon.

While central banks are very likely to cut interest rates this year, it is unlikely that we will witness a return to zero interest rate policies or quantitative easing any time soon.

Global growth remained resilient while there have been improvements in inflation in 2023. The global economy's resilience was partly due to a self-reinforcing dynamic between strong consumer spending and tight labor markets.

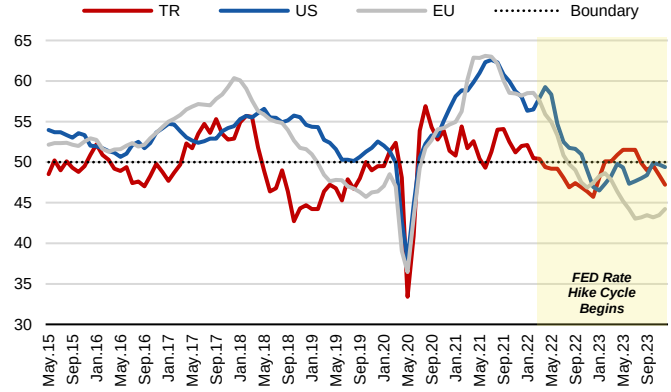
Monetary policy works with long and variable lags. The lags have been longer and more variable in this cycle partly due to the terming out of debt. We expect global growth in 2024 to be slower than in 2023. We continue to expect the rapid hiking that central banks have administered, coupled with less help from the fiscal side and looser labor markets, will apply the brakes to economic growth. Developed market economies, in particular, are likely to display slower growth, with the EU and US likely to see recessions.

Graph 1: Global Interest Rates (%)



Source: Bloomberg, YKY Research

Graph 2: Manufacturing PMI – TR & US & EU



Source: ISO, YKY Research

Goldilocks perception set to fade

Goods inflation has declined materially, while the decline in services inflation has been more limited and remains sticky. This could lead to fewer interest rate cuts than the market expects. We think the expected slowdown will allow core and services inflation to decline. If not, central banks will be faced with a difficult choice of whether to cut despite high core and services inflation or maintain tight policies for longer.

The current investment landscape remains in the “Goldilocks” zone. Our view is that the investment regime will turn to a recession in 2024.

In our view, the probability of a recession is higher than usual, while a soft landing cannot be ruled out. To the extent that a soft landing can be achieved, rate cuts will likely be delayed. Our expected recession in the Euro Zone will likely lead to ECB cuts at around the same time as the FED. Among central banks, the Bank of Japan has followed a different strategy, maintaining negative policy rates even as inflation has risen. One of 2024's questions will be whether the BOJ will exit from Yield Curve Control. The Yen is likely to be one of the better performers among G7 countries.

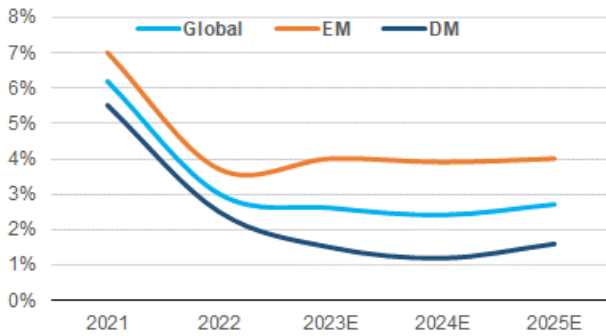
A deep or a shallow recession?

If we see a recession, it will matter whether it is a deep (hard landing) or shallow one. The former would see risk-off in markets with volatility and spreads widening and the potential for major credit events as long periods of easy money tend to breed complacency and capital misallocation. A hard landing would provide a very challenging environment for risk assets, including emerging markets, especially if it leads to credit events.

A shallower recession without major credit events is not necessarily bad for emerging markets as potentially wider spreads could be compensated by overall lower developed market yields.

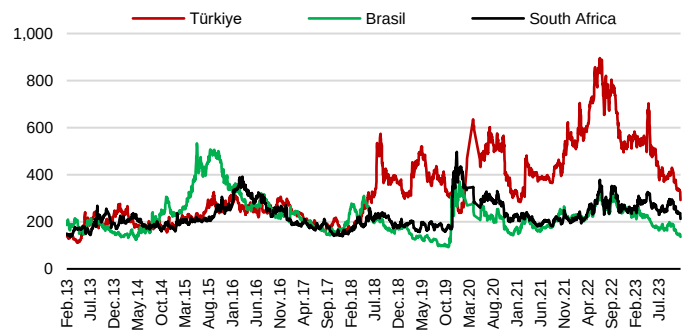
We believe a hard landing has a higher probability of occurrence than a shallow one.

Graph 3: Global Real GDP Growth



Source: World Bank

Graph 4: CDS's for EM's



Source: Bloomberg, YKY Research

Limited upside for risky assets

Given the starting levels, we do not view developed market equities as attractive in general, although some selective exposure might make sense. It seems to be the consensus view that a recession will be avoided, while equity multiples and EPS growth projections appear high, credit spreads are tight, and volatility is low. Thus, even in a soft landing scenario, we consider the upside to be limited for risky assets. Sentiment and positioning data suggest a near-term pullback. But as long as we remain in the Goldilocks zone, the dips will likely be bought. However, as we will likely move into a recession, global risk assets, especially US equities, could top in January and decline significantly in 1H. In a 1H recession trade scenario, the USD is likely to rally, which has bearish implications for the EURUSD. However, in 2H, we could see the USD top out and decline after that, which would be bullish for risk assets and especially EMs.

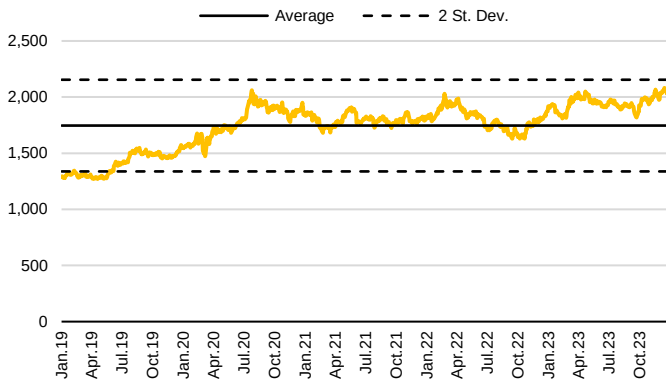
Emerging markets generally have weathered the rise in interest rates with some success and have avoided funding pressures. As long as a hard landing can be avoided, we think the risk-reward for emerging markets, including Türkiye, is more favorable than that for developed markets, especially given valuations and positioning. However, China remains the wild card, where government efforts have not seen much success. However, from a contrarian perspective, China may stage a comeback in 2024.

Bullish set up for “Gold”

For commodities, we think the anticipated recession will weigh down on demand but that the supply-side dynamic will differ between various commodities. Thus, while we are not positive on commodities, but there could be some selective exposure, especially among those with favorable structural dynamics like copper, especially in 2H .

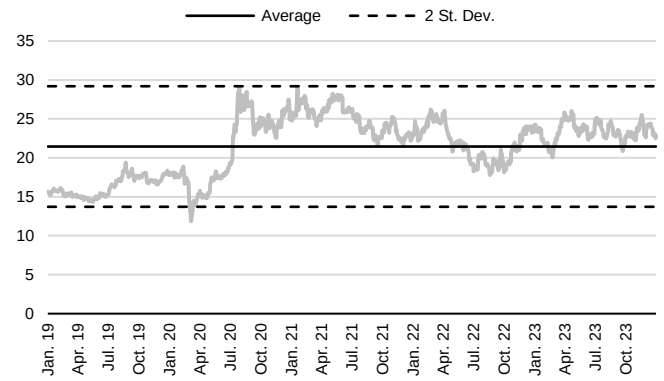
We continue to see precious metals, especially gold, among our favorite asset classes. And with peak Fed hawkishness behind us, real rates should continue to decline, which is historically a bullish setup for gold.

Graph 5: Gold / USD



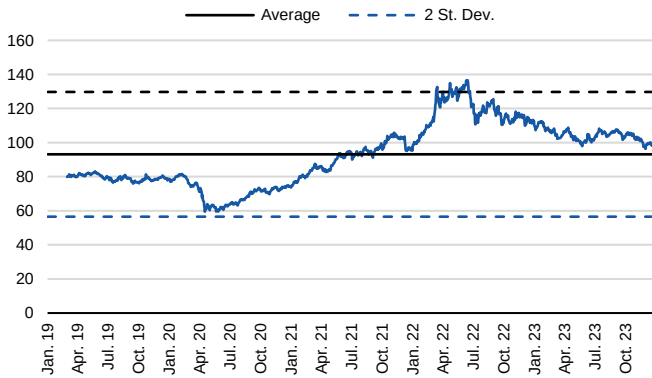
Source: Bloomberg, YKY Research

Graph 6: Silver / USD



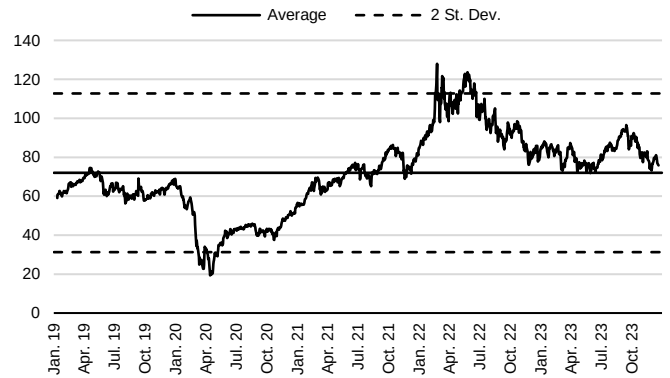
Source: Bloomberg, YKY Research

Graph 7: Bloomberg Commodity Index



Source: Bloomberg, YKY Research

Graph 8: Brent Oil / USD



Source: Bloomberg, YKY Research

Türkiye Macro Outlook

Growth: Wait for a slowdown

The economic outlook, including growth, is highly uncertain, but we look for a slowdown in economic activity in 2024. While our forecast is for 3% - 4% real GDP growth, we think risks are very much on the downside. According to the latest available data, the Turkish economy grew by 5.9% yoy in 3Q23, but on a quarterly basis, growth slowed down markedly to 0.3% q/q. We expect the lagged effects of the interest rate hikes and tighter financial conditions, including weaker credit growth, to pressure domestic demand and receive only meager help from net exports. On the other hand, higher fiscal spending and a strong labor market should weigh positively on growth. We do not expect a recession in 2024.

The production side appears weaker than the demand side. On the one hand, industrial production continues to slow down, having registered its fifth monthly decline, while manufacturing PMI has been below the 50 mark for months now.

On the other hand, consumption goods imports were up by around 28% in December, retail sales were again up in November, and consumer confidence has risen since August. BloombergHT's consumption tendency reached its highest level since July 2020 and consumer confidence has been rising since August. Meanwhile, service sector SAMEKS index rose by 1.4% m/m and reached 52.8, its highest level in six months. Also a resilient service sector and high and sticky services inflation suggests that the expected slow down in domestic demand has not arrived yet.

The risk we see is for domestic demand not to slow as much as anticipated. Policymakers have repeatedly stated that slowing domestic demand is a priority for disinflation and narrowing the current account deficit. Policymakers must tread a fine line between applying the breaks too hard and letting domestic demand remain resilient.

Inflation: Negative surprises are more likely than positive ones

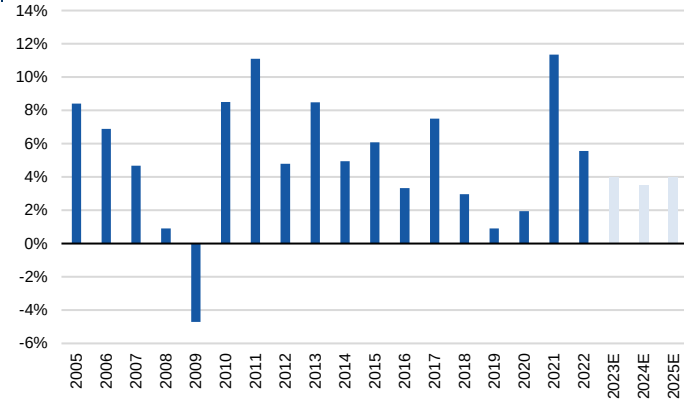
We expect annual inflation to fall sharply in the second half of 2024, after reaching around 70% in May, mainly due to base effects, and to see CPI inflation of around 40% by year-end. However, we think risks are on the upside. (40-45%)

CPI increased by 2.93% m/m and in 64.77% y/y in Dec'23 while PPI increased by 1.14% m/m to 44.22% y/y. All core indices rose on a yearly basis in the month. Core index C (excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) increased by 2.31% m/m and 70.64% y/y. The other core indicators, CPI A, CPI B, CPI D, CPI E and CPI F Index increased to 65.68%, 68.02%, 61.2%, 64.53% and 70.12% y/y respectively.

Services inflation has risen from 89.7% y/y in November to 90.66% y/y in December (Rents increased by 108.58% y/y). Services inflation was 55.5% y/y at the end of 2022. The path of services inflation through the year ahead is a crucial question.

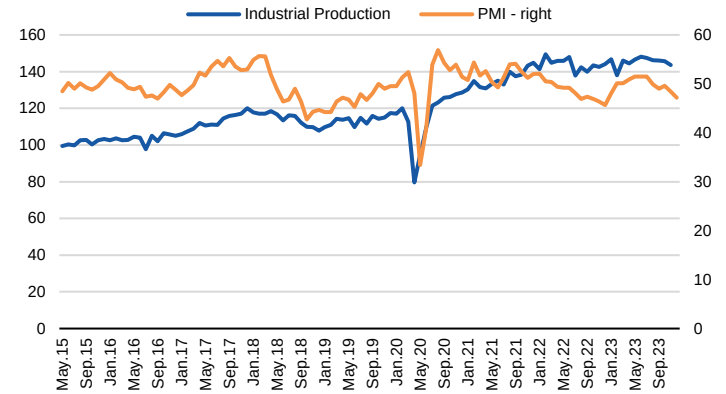
We believe that services inflation seems demand driven and especially high and sticky services inflation suggest that the risk of higher than expected inflation is material. Our view is that the restrictive central bank policies now in place, coupled with an expected stepdown in spending, will allow services inflation to gradually cool. If services does not cool down the central bank will be faced with the unpleasant prospect of maintaining tight policies for longer than expected.

Graph 9: Annual Real GDP Growth



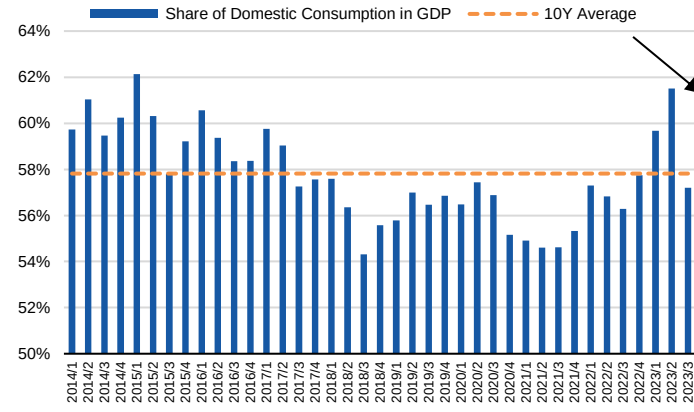
Source: TURKSTAT, YKY Research

Graph 10: Industrial Production & Manufacturing PMI



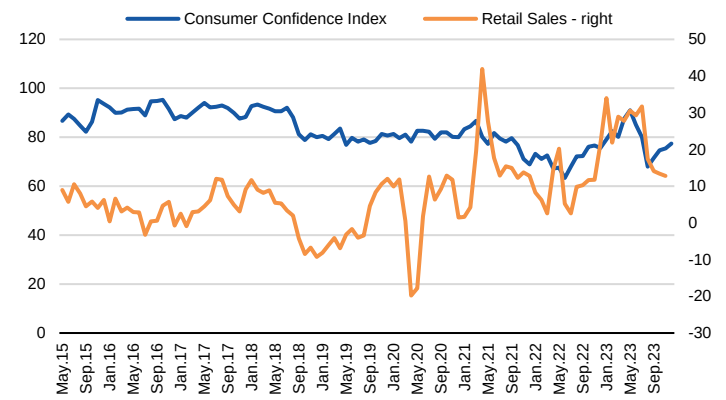
Source: TURKSTAT, YKY Research

Graph 11: Share of Domestic Consumption in GDP



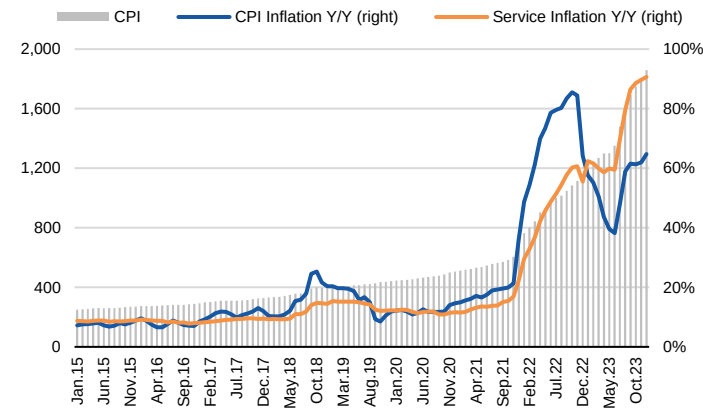
Source: TURKSTAT, YKY Research

Graph 12: Consumer Confidence & Retail Sales Index



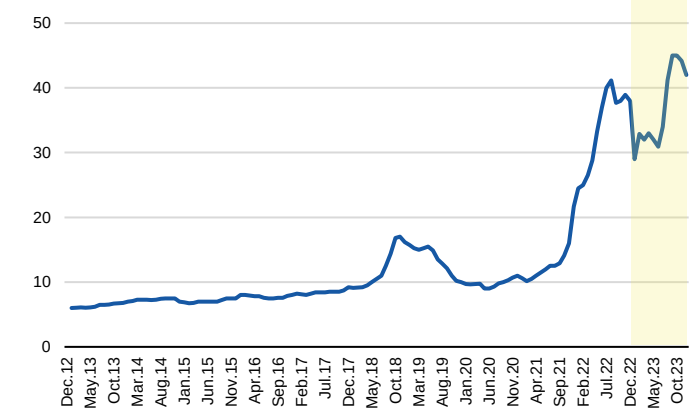
Source: TURKSTAT, YKY Research

Graph 13: CPI, Service and CPI Inflation



Source: TURKSTAT, YKY Research

Graph 14: 12M Median CPI Inflation Expectations



Source: CBRT, YKY Research

Balance of Payments: No longer the major source of macro concerns

The 12-month rolling current account deficit narrowed from USD50.9bn in October to USD49.6 bn in November. The figure was USD 49.1bn at year end 2022. So there has been a slight improvement in recent months. The “core” current account surplus, excluding gold and energy, has declined from USD 50.4 bn at year end 2022 to USD 32bn in December 2023, suggesting that the anticipated rebalancing has not yet fully begun. We expect the current account deficit to remain at around 3.3% of GDP in 2024.

On the financing side, capital inflows have picked up after the change in the economic management team, leading to a buildup of gross and net FX reserves.

We foresee no external financing problems in 2024.

Budget: Initially loose, but tighter later

The central government budget deficit has been much lower than expected in November at TL532 bn, compared to the year-end projection of TL1.6 trillion. In January-November, central government budget revenues were up by 83% yoy, mainly on the back of an 89.6% yoy increase in tax revenues. In January-November, budget expenditures were up 102.2% yoy. Non-interest expenditures have risen in this period by 100.5% yoy, mainly due to a 117% yoy increase in personnel expenditures and a 104% yoy rise in current transfers.

Thus, the budget deficit widened to TL 532bn in January-November 2023 vs. TL20bn in the same period of the previous year. The primary surplus declined by 63% yoy in January-November 2023 to TL99.8bn. As for 2024, the Medium Term Program sees the central government budget deficit at 6.4% of GDP. Our forecast is also for a wide deficit, but we think the risks point to a lower one.

Policy Rate: All about data-driven steps.

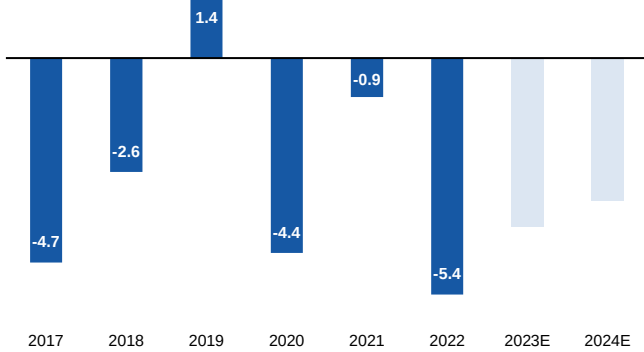
At its December MPC meeting, the CBRT maintained its hawkish bias and signaled another potential rate hike in January before the likely end of the cycle. We think the CBRT will deliver another final 250bps rate hike, and we see the terminal rate in this cycle at 45.0%.

According to the CBRT survey, annual inflation expectations for CPI have declined to 41% and 25% for 12 and 24 months ahead. Beyond the final hike in January, we expect a “higher for longer” stance, thus a prolonged period of unchanged rates. If inflation falls more than expected, there would be room for policy rate cuts in 1H24. However, as discussed above, we see risks being on the upside, and therefore, we do not expect the CBRT to ease before 4Q 2024.

One key question is how risk-averse the central bank will likely be as inflation falls in 2H. The challenge in a soft-landing scenario and with ambitious 2025-2026 inflation projections is that it will be less clear when inflationary pressures have been sufficiently extinguished. The upshot is that central banks may need to hold the terminal rate higher for longer.

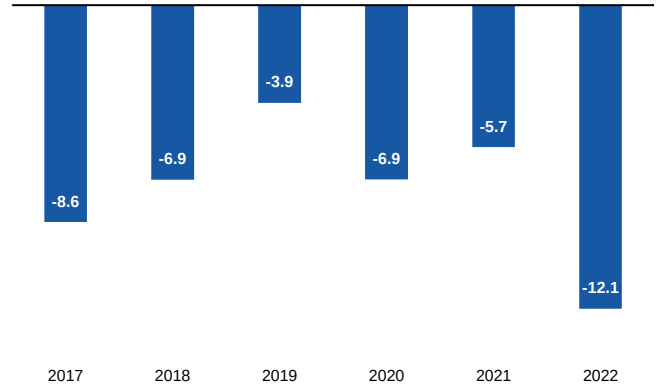
Markets will monitor developments on Türkiye's approval of Swedish accession to NATO and US approval of the F-16 sale to Türkiye—also in the spotlight are relations with the EU, and especially the chances of a new Customs Union with the Bloc. We expect potentially market-friendly moves on that front to augment greater foreign inflow expectations and support the Index.

Graph 15: Current Balance / GDP (%)



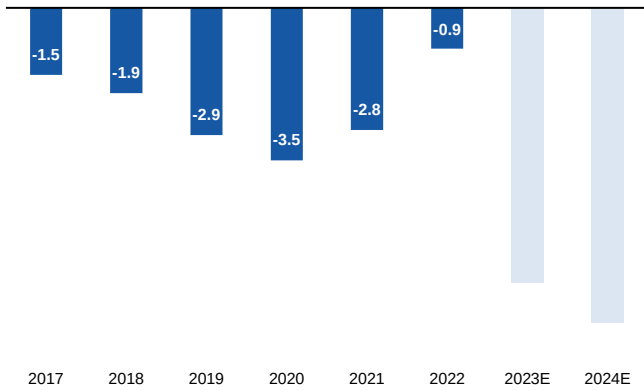
Source: TURKSTAT, YKY Research

Graph 16: External Trade Balance / GDP (%)



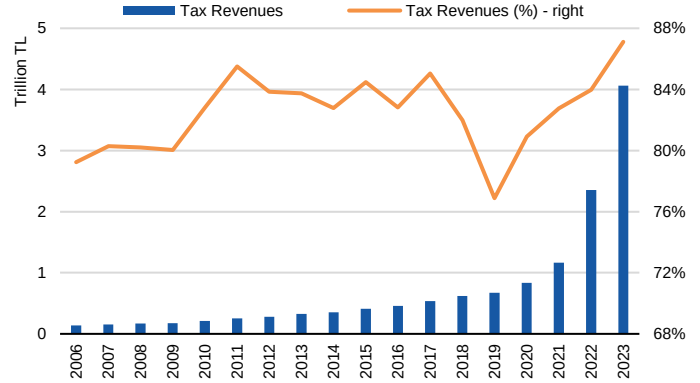
Source: TURKSTAT, YKY Research

Graph 17: Budget Balance / GDP (%)



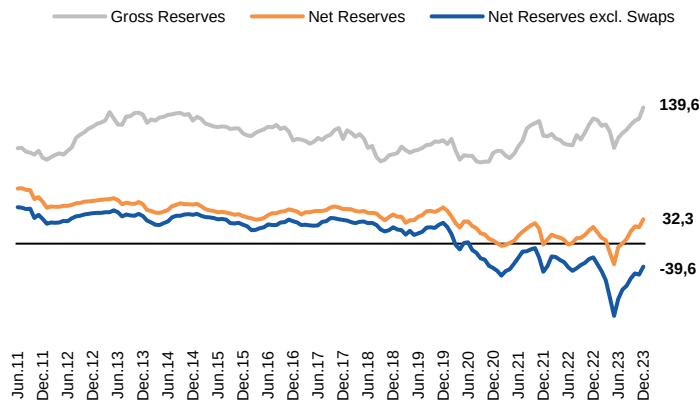
Source: TURKSTAT, Ministry of Treasury and Finance, YKY Research

Graph 18: Tax Revenues / General Government Budget (%)



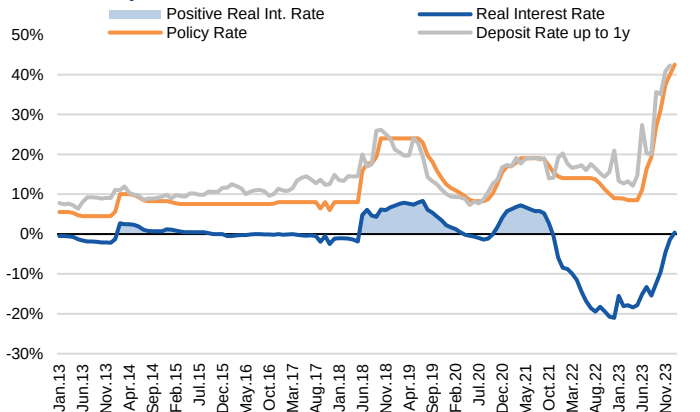
Source: Ministry of Treasury and Finance, YKY Research

Graph 19: CBRT Reserves (bn USD)



Source: CBRT, YKY Research

Graph 20: Real Interest Rate According to 12M Median CPI Inflation Expectation



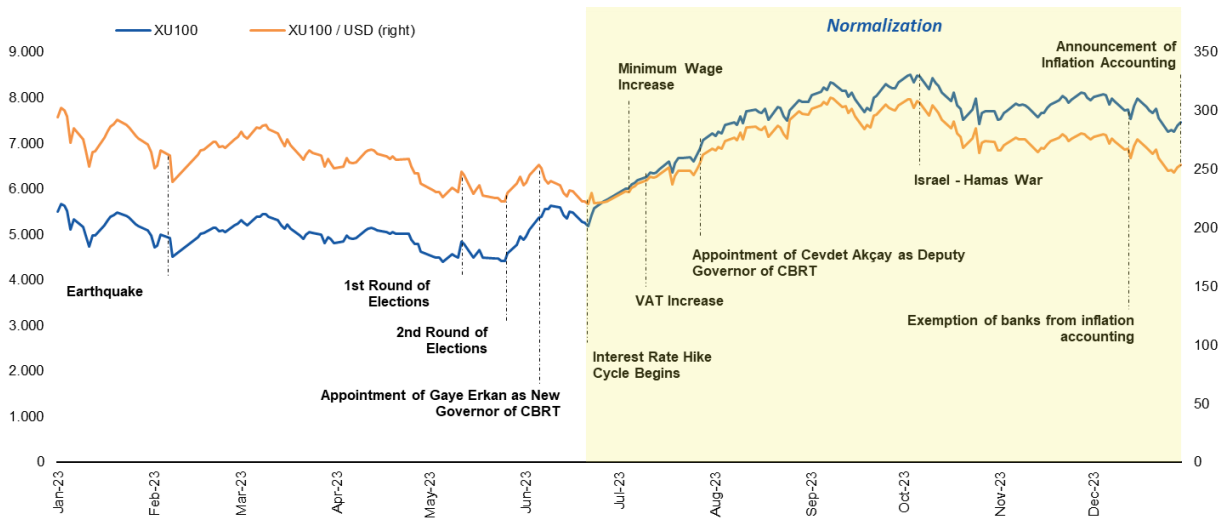
Source: CBRT, TURKSTAT, YKY Research

BIST Outlook

What is left from 2023 to 2024?

At the beginning of 2023, we were anticipating a year of two distinct halves for the BIST, namely before and after the May'23 presidential/general elections, and forecasting ~40% upside based on our bottom-up index target. Meanwhile, the devastating earthquake on Feb'23 was a huge negative, as well as a national tragedy, the consequences of which will continue to be felt in 2024. And yet the market moved broadly in parallel with our initial expectations, albeit with differences in the details. The BIST-100 gained 36% for the full year while 30% in 2H23 alone. In USD terms, the index was down 24% in 1H23 and lower at 14% for full year 2023 thanks to a/an 14% increase in 2H23.

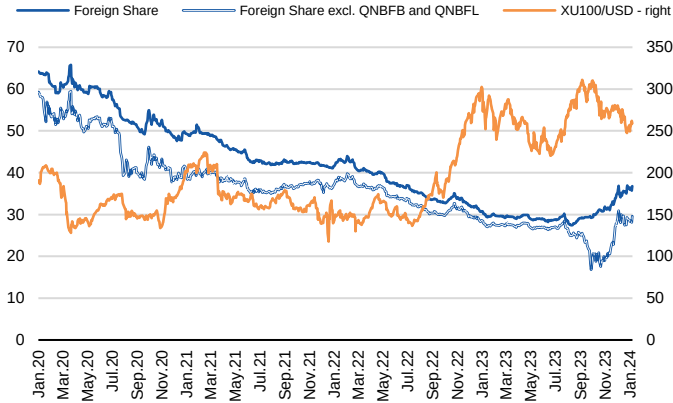
Graph 21: Event Map for BIST100 - 2023



Source: YKY Research

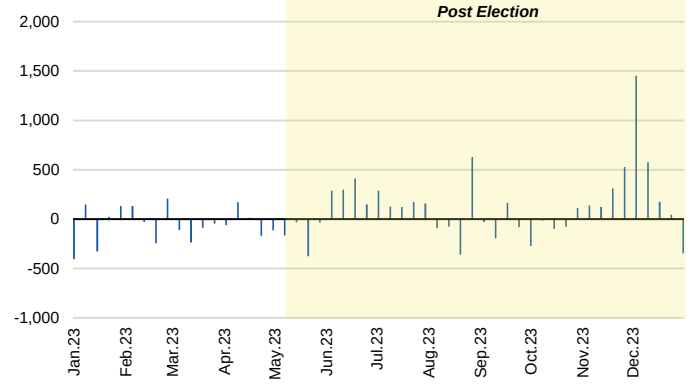
The core reason behind the two different halves was the enormous pivot from pre-election macro policies to orthodox ones in the post-election era, marked by a/an 340pp rise in the CBRT benchmark rate, allowing for a/an c.250 reduction in CDS and accompanied by a/an USD4.6bn cumulative foreign inflow. Relatively more favorable global risk appetite, marked by a downtrend in emerging markets' CDS spreads, further augmented by the revival of a positive mood, or at least ended the ultra-bearish one.

Graph 22: BIST Foreign Share (%) and BIST100 in USD



Source: YKY Research

Graph 23: Net Foreign Inflow - Weekly (mn USD)

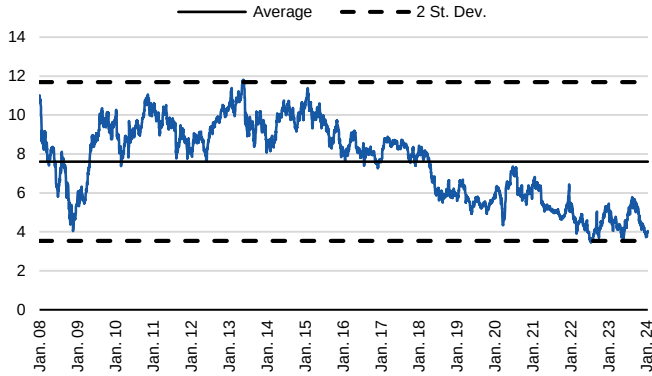


Source: CBRT, YKY Research

The BIST's trailing and forward P/Es of 4.8x and 5.5x at the beginning of the year, which fell to 4.6x and 4.9x by mid-year, eventually closed the year at 4.9x and 3.8x, respectively. The breakdown of the P/E change suggests that -4% of the change in the post-election era is attributable to 67% change in earnings revision, while stems from a/an 59% change in price.

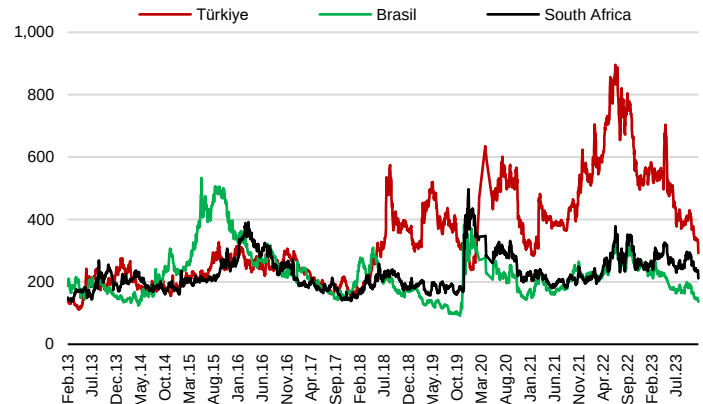
In the same period, MSCI Türkiye's 57% discount to its emerging peers as of end-2022 increased to 61% by end-2023.

Graph 24: XU100 – 4Q Forward P/E



Source: Bloomberg, YKY Research

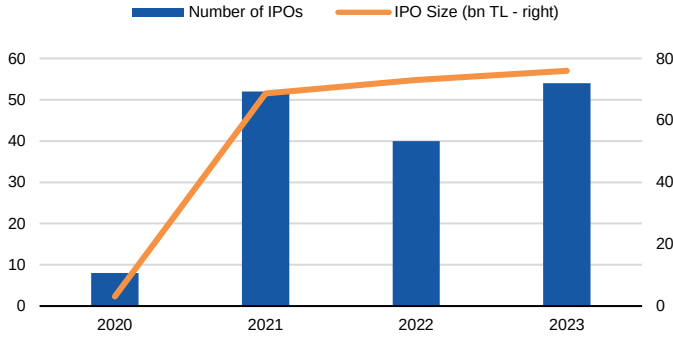
Graph 25: CDS's



Source: Bloomberg, YKY Research

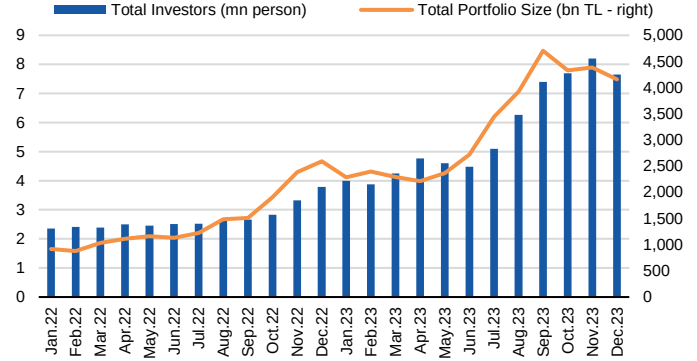
Last but not least, 2023 was a year to be remembered for IPO mania as a total of 54 companies went public, raising capital of TL76bn and playing a lead role in the 3.9 mn increase in number of retail investors. The post-IPO share performances were hard to believe at the time when investors were seeking real-returns. Yet, as we approach the year-end and negative real rates are set to move gradually to positive territory, neither the demand nor the latest IPOs' share performances were maintained, and the IPO mania has broadly weakened.

Graph 26: Number of IPOs and IPO Size by Years



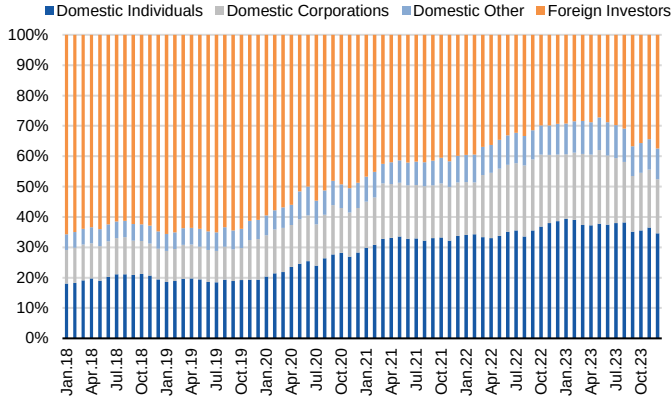
Source: YKY Research

Graph 27: Number of Investors and Portfolio Size



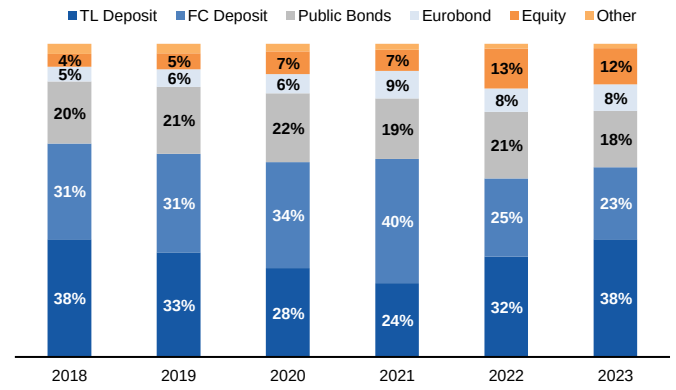
Source: TSPB, MKK, YKY Research

Graph 28: Türkiye - Equity Market Investor Distribution



Source: TSPB, MKK, YKY Research

Graph 29: Asset Allocation of Domestic Investors



Source: TSPB, YKY Research

What's our BIST outlook for 2024?

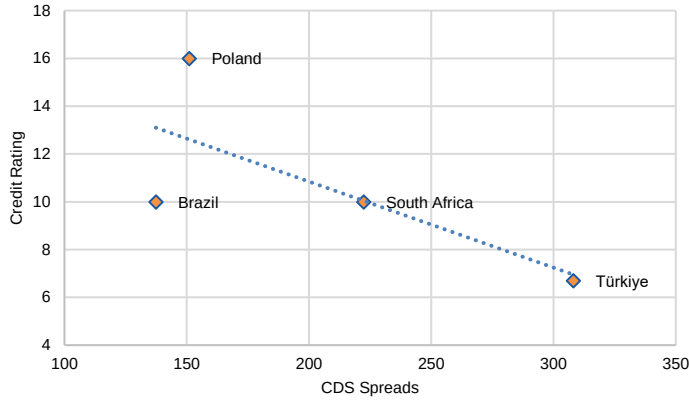
We believe the aforementioned discrepancy between the two halves of 2023 regarding macro policies and corresponding market performances will likely be witnessed in 2024 in a similar order (i.e., firstly sluggish, then lately positive). The prime determinant of the index will be the extent of foreign investor interest in the BIST and how quickly it could recoup the losses of the past four years which would ultimately depend on the effectiveness of the new economic team's shift towards a more conventional policy framework aimed at disinflation, in our view. Thus, It will be vital to observe their stance's evolution once the cost of the trade-off between growth and inflation surfaces more going forward.

Table: Investor Calendar – 2024

2024	January	February	March	April	May	June	July	August	September	October	November	December
Central Bank of Türkiye (CBRT)	25	22	21	25	23	27	25	22	19	17	21	26
Rating Agencies	12 - Moody's		8 - Fitch		3 - S&P		19 - Moody's		6 - Fitch		1 - S&P	
MSCI Index Changes		12			14			12			7	
Politics			31 - Local elections in Turkey	April & May - Indian General Elections							5 - U.S. General Election	

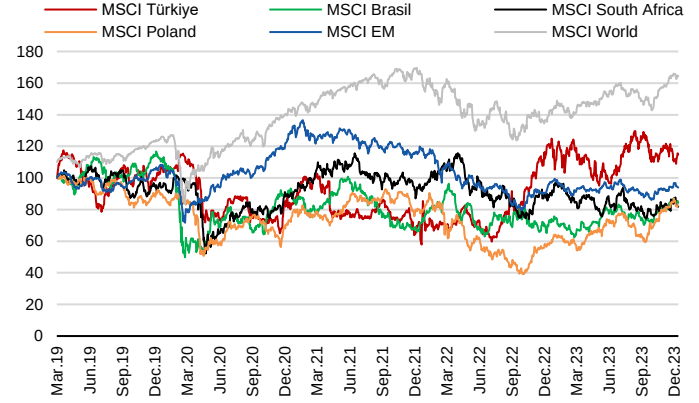
Source: YKY Research

Graph 30: EM Countries Comparison – TR, BR, PL & SA



Source: Capital IQ, YKY Research

Graph 31: MSCI Scores (2019 =100)



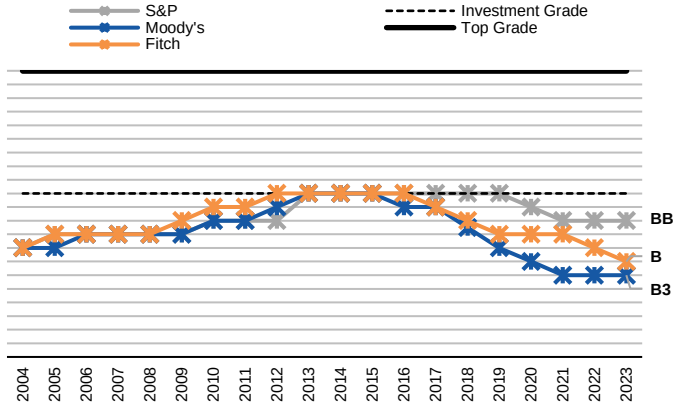
Source: Bloomberg, YKY Research

The chronology of recent CBRT rate hikes and the Bank's subsequent communications suggest that the Bank is clearly decisive on monetary tightening to anchor inflation expectations. It would not shy from additional rate hikes if the data necessitates them. In fact, the Monetary Board's November decision, which surprised the market with an above-consensus hike, hinted at the mindset of the new macro team, which, in our view, is seeking to move ahead of the market to augment its credibility.

The CBRT's persistent stance and determination have multiple and mostly competing consequences for BIST valuation.

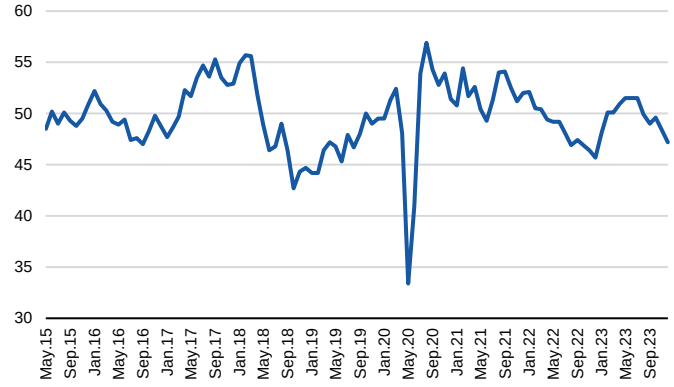
- On the one hand, sticking to the disinflation process at almost any cost is clearly improving local and foreign investor sentiment, promising rating upgrades and eventually offering lower risk premiums, all of which support share prices.
- Yet, on the other hand, this scenario risks weaker economic activity, lower growth prints, and a high cost of funding for companies, thus negatively impacting their cash flows and valuations. Moreover, the monetary policy steps to combat dollarization prompt higher TL deposit rates whereby the BIST is no longer the single asset class offering real returns, unlike over the past couple of years.

Graph 32: Türkiye - Credit Ratings Score



Source: Capital IQ, YKY Research

Graph 33: Manufacturing PMI



Source: TURKSTAT, YKY Research

In our base case scenario, we assume that policy normalization will continue before and after the municipal elections in Mar'24. This scenario would attract foreign investors, likely at first to bonds and later to stocks, in line with growing conviction towards the sustainability of corrected macro imbalances and improved FX reserves. Additionally,

- We expect ratings agencies' recent upgrades of Türkiye's outlook to be followed by actual rating upgrades in 2024, which would further augment sentiment.
- We foresee the Fed's initiation of rate cuts in 2024, which should trigger a downtrend in both DXY and global yields, thus prompting greater interest in emerging markets. We expect Türkiye to be positively impacted by such a trend thanks to its highly rate-sensitive economy and its need for foreign funding.
- We believe that already record-low foreign investor interest, even after the positive inflow in 2023, and Türkiye's close to 60% discount to its peers on forward-looking P/E should limit the downside risks, even if insufficient to spark a rally.

On the downside, monetary tightening and declining inflation are likely to spell weaker financials and a relatively dismal earnings outlook for listed companies when compared to the past couple of years. In particular, the higher cost of funding and relatively limited access to credit should reduce real earnings and cash balances starting from 4Q23. Thus, we expect limited support for share performance from financials but gradually declining risk as foreign inflows drive valuations.

The core macro assumptions in our models are as follows,

- We assume a slowdown in GDP growth to 3.0 %-4.0% (2023e: 4.0%) with risks on the downside.
- We assume y/y lower, but still high CPI of 40%-45% (2022: 77%) by year-end, yielding an average CPI of 50-55% with northward risks
- We formulate our risk-free rate for a given year as a sum of our risk-free rate assumption and our real GDP growth for that particular year. We rely on an equity risk premium of 6%. Accordingly, our COE for stocks with Beta:1 at 54% for 2024 drops to 32% for 2025 and then gradually recedes to 20% for the long run

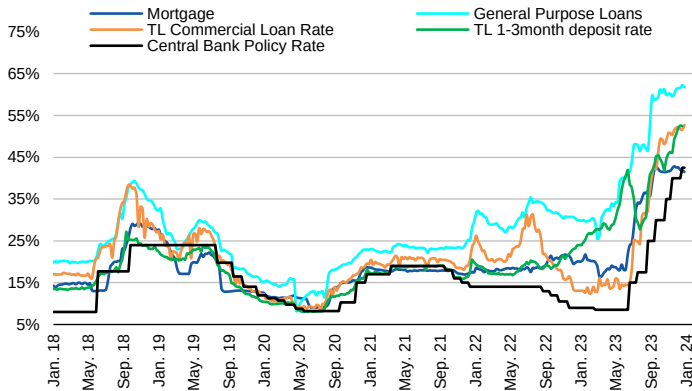
All in all, we are wary of the outlook of companies' near-term earnings and cash flow, given the rising cost of funding and weaker demand at home and abroad. Yet we remain cautiously positive for the BIST at current levels. Our bottom-up 12M index target at ~11.5K offers 43% upside in TL terms and roughly flat in USD terms based on our year-end inflation assumption of 40% and USD/TL (eop) of 42.

What do we prefer, given the current outlook?

Our current model for stock picking rests on three pillars: (i) we preserve our defensive stance, (ii) we favor banks and financials to industrials and (iii) we prefer large-cap names with high liquidity to small caps with the anticipation of higher foreign interest.

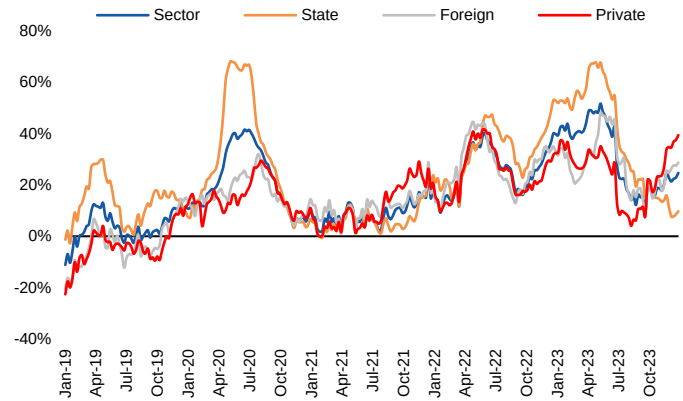
- *It's better to be cautious.* Firstly, we broadly preserve our defensive stance in the current outlook. At the core, we prioritize stocks that are well equipped for high inflation (e.g., pricing power, high gross margin) and capable of preserving their cash stream in a high-interest rate environment (e.g., low indebtedness, low NWC needs). We adopt this approach as we expect a “higher rates for longer” stance from the CBRT, which spells weaker economic activity.

Graph 34: Credit and Deposit Rates



Source: BRSA, YKY Research

Graph 35: Credit Growth YoY

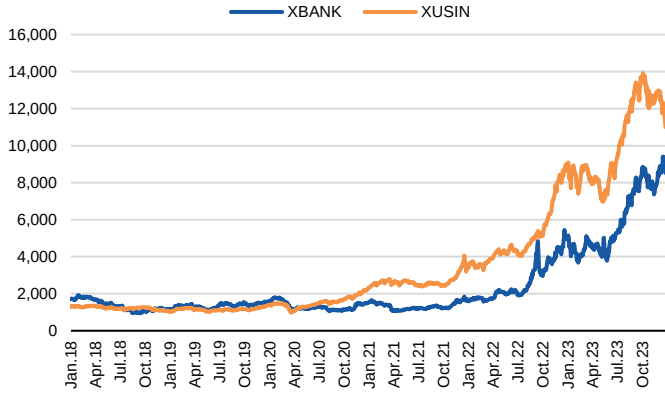


Source: BRSA, YKY Research

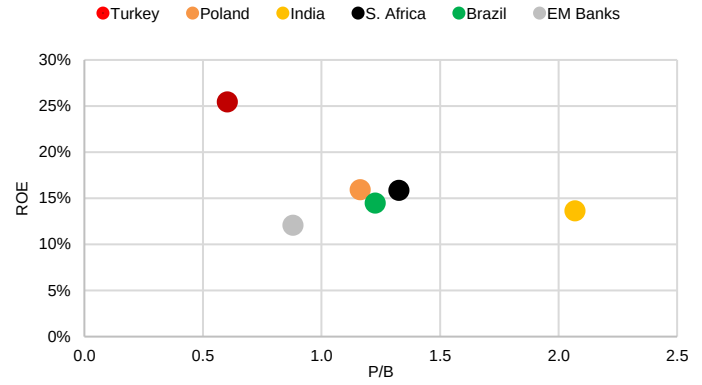
The lagged effects of recent rate hikes and tighter financial conditions that we envisage for the foreseeable future will weigh on domestic consumption and imports more in the coming periods, especially beyond 1Q24, when the positive impact of the 49% minimum wage hike is set to disappear. Given that meager help is foreseen from exports, alarm bells ring regarding the growth outlook. We consider the CBRT's achieving of a 4.0+ growth target for 2024 more than challenging and see a GDP growth range of 2.5%-3% as more likely. This scenario recommends diminished exposure to cyclical names and focusing on defensive ones.

- *Keeping Banks as “overweight”.* Secondly, we like banks as we consider them the main beneficiaries of normalization in macro policies; they were the main victims of previous unorthodox policies. Banks' higher sensitivity to declining national risk premiums (CDS) also supports our preference; since August 2023, the XBANK has outperformed the XUSIN by 36%. We note the challenges to the banks' key valuation pillars. And yet, we expect pricing dynamics, marked by declining risk premiums and potentially higher risk appetite for Türkiye, to be more decisive in stock performance.

Graph 36: BIST – Bank & Industrial Index

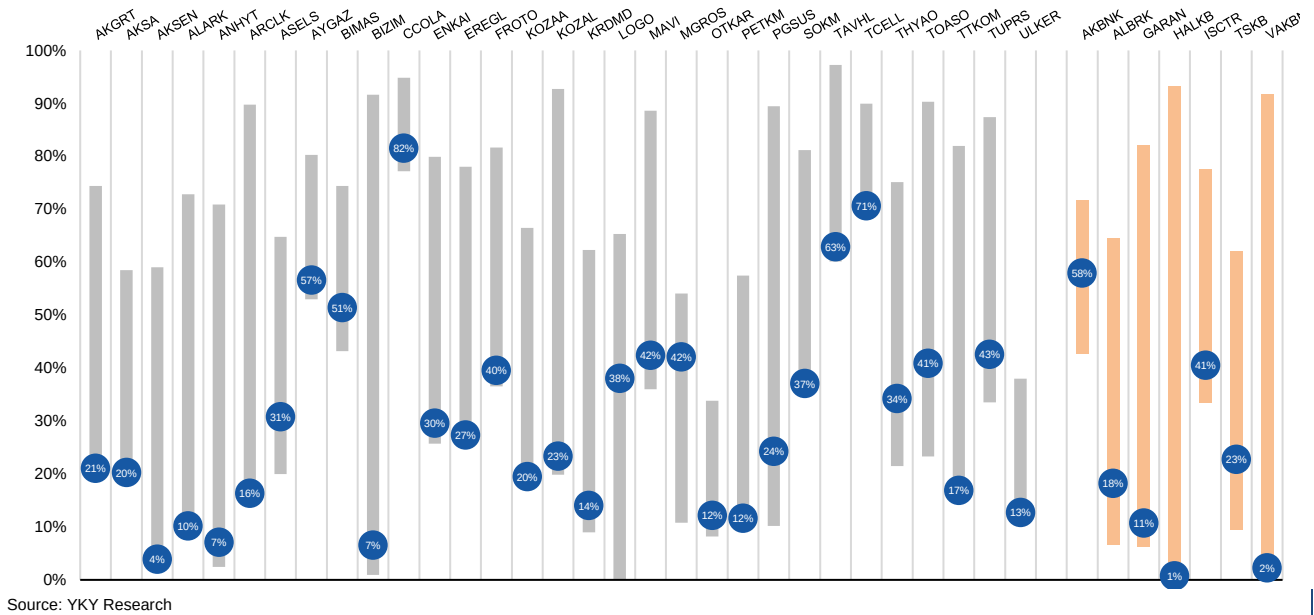


Graph 37: Foreign Bank Peers

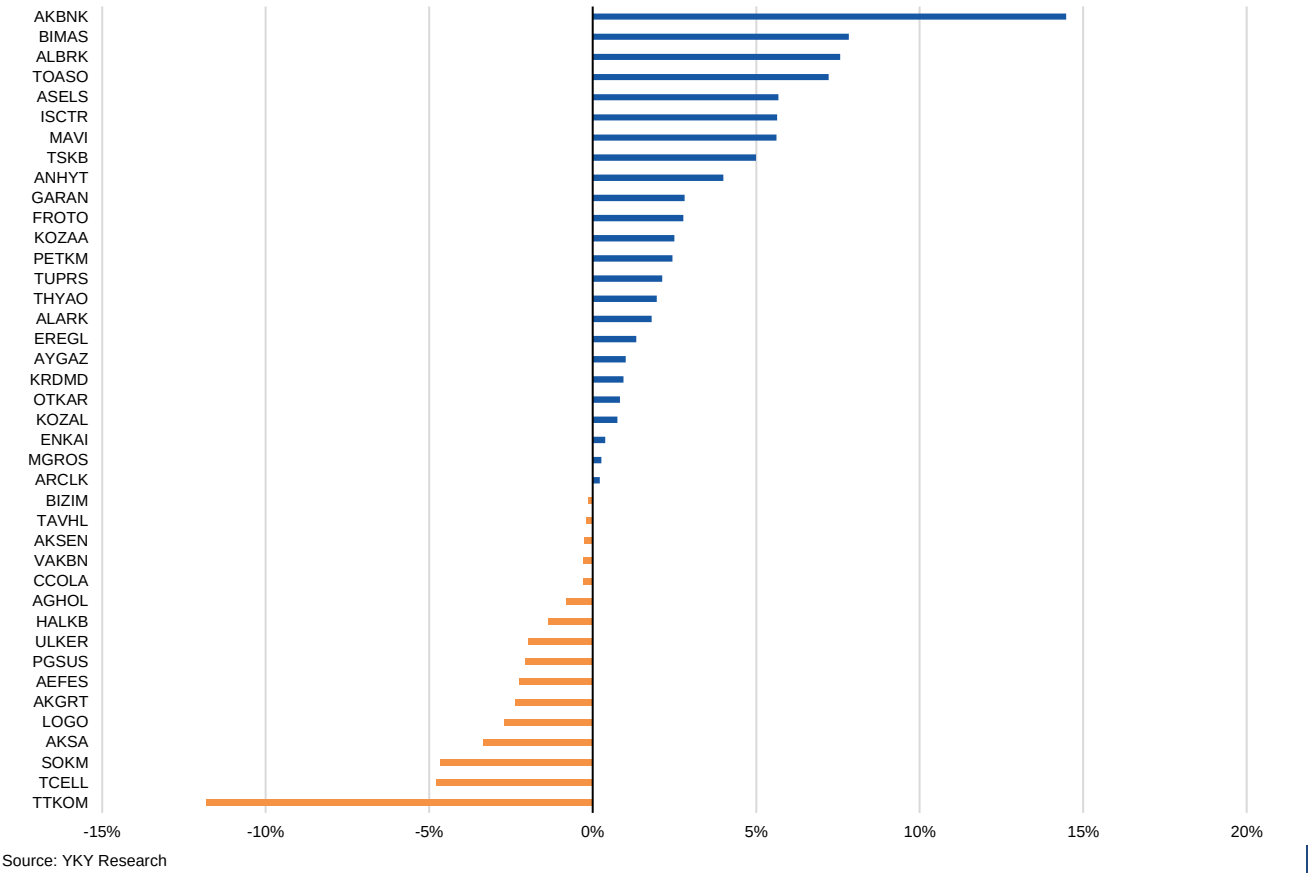


- Factoring in the changing investor mix. Thirdly, since we expect higher foreign interest but lower local appetite, we foresee a change in investor composition for 2024. And while the change will not be so dramatic as to elevate us to historical levels, it will be more prominent than over the past two years. We expect such a change to favor large caps mostly, especially banks.

Graph 38: YKY Coverage List - Foreign Ownership Change Range & Current Level as of 12.01.2024



Graph 39: YKY Coverage List - Post Elections Foreign Ownership Rate Change



Our Model Portfolio, composed of our top picks and formulated according to our expectations, comprises **AKBNK, TSKB, BIMAS, THYAO, SOKM, AGHOL, AKGRT, AKSEN, MAVI** and **TTKOM**.

Inflation Accounting: The very hot topic of 2024

We find it useful to touch on one of the hot topics in the market currently, namely inflation accounting which will be at the core of discussions starting from 2024. This is because, in Nov'23, the 'Public Oversight Authority' (KGK), which is responsible for Turkish Accounting Standards, announced that TMS29/IFRS25 standards, practically equivalent to IAS29/IFRS25 and titled '*Financial Reporting in High Inflation Economies*' would be applied for financial statements ending on 31 December 2023. This means companies will start to restate their financials by indexing historical amount, thus implement "inflation accounting which is, at its core, an attempt to decompose the effects of high inflation on financial statements and to restate assets and liabilities to reflect their current purchasing power. High inflation reduces the usefulness of financial statements in reflecting the actual financial position of companies and makes it difficult to make meaningful comparisons of financial performance between periods.

In summary, (i) we remind that IAS29 is an accounting restatement that would not alter the company's cash balances or change the extent to which inflation harms or benefits a company in reality, but only the presentation of the financial statements (ii) we welcome the implementation of the TMS29 because we believe that financial statements, our primary source in understanding the economic profitability and cash generation capabilities of companies, will serve this purpose better than today's practice. In other words, all accounting-based valuation metrics or ratios, such

as ROE and ROIC, are highly distorted under the current practice, yielding incomparably different results from those of previous years.

For now, we keep our forecasts as unadjusted as It is technically not possible to calculate the impact without any details while companies even themselves fail to provide any comments, it would be too speculative. Yet, we still try to assess the impact at least direction and magnitude base with the available data in our hand. For further details regarding the mechanism of IAS19 and how would affect comparatively, please refer to Appendix 7 of this report.

YKY Model Portfolio

Our most preferred picks are as follows; Akbank, TSKB, BIM, Turkish Airlines, Şok Market, AG Anadolu Grubu Holding, Aksigorta, Aksa Enerji, Mavi and Türk Telekom

Company	Ticker	Market Cap (TLmn)	3M Avg. Daily. Trad. Vol (TLmn)	Current Price (TL)	Target Price (TL)	Return Potential
Akbank	AKBNK	224.952	3.313	43,26	58,00	34%
T.S.K.B.	TSKB	21.028	408	7,51	11,00	46%
Bim Birlesik Magazalar	BIMAS	203.412	1.283	335,00	510,00	52%
Turk Hava Yollari	THYAO	346.380	8.795	251,00	400,00	59%
Sok Marketler Ticaret	SOKM	32.868	466	55,40	87,60	58%
Ag Anadolu Grubu Holding	AGHOL	52.896	150	217,20	330,00	52%
Aksigorta	AKGRT	9.865	189	6,12	8,20	34%
Aksa Enerji	AKSEN	39.856	226	32,50	55,00	69%
Mavi Giyim	MAVI	25.246	224	127,10	190,00	49%
Turk Telekom	TTKOM	99.960	1.119	28,56	45,90	61%

Source: YKY Research, Rasyonet

Company	Ticker	Portfolio Entry Date	Entry Price	Current Price	Nom. Return	BIST-100 Rel. Return
Coca Cola Icecek	CCOLA	28.02.2020	40,68	500,00	1129,0%	66,5%
Akbank	AKBNK	01.09.2022	10,83	43,26	299,6%	58,0%
T.S.K.B.	TSKB	18.11.2022	3,33	7,51	125,5%	27,5%
Bim Birlesik Magazalar	BIMAS	16.01.2023	123,38	335,00	171,5%	73,3%
Turk Hava Yollari	THYAO	16.01.2023	140,48	251,00	78,7%	14,0%
Sok Marketler Ticaret	SOKM	24.04.2023	34,70	55,40	59,7%	0,3%
Ag Anadolu Grubu Holding	AGHOL	12.05.2023	106,87	217,20	103,2%	22,7%
Aksigorta	AKGRT	13.09.2023	6,07	6,12	0,9%	2,1%
Model Portfolio return since initiation *					3285,6%	212,9%
Model Portfolio return 2023					62,9%	25,2%
Model Portfolio return 2024					9,6%	2,5%
BIST-100 return since initiation *					836,5%	
BIST-100 Return 2023					32,0%	
BIST-100 return 2024					4,8%	

Source: YKY Research, Rasyonet; * 21/01/2013

Akbank: We keep Akbank in our Model Portfolio thanks to 1) its solid ROE generation (2024E: 32%), 2) robust capital ratios. The bank is currently trading at 2024E 0.8x P/B and 3x P/E based on our estimates. We foresee a 4% dividend yield from 2023 earnings. Akbank has been a member of our Model Portfolio since Sept '22 and provided a 58% relative return vs. the XU100.

TSKB: We preserve TSKB in our Model Portfolio on the back of 1) its superior ROE generation (2024E: 37%) 2) resilient margin trend on the back of its FC weighted balance sheet and 3) since TSKB is less vulnerable to adverse regulations (i.e. TL/FC deposit requirements, no FC protected deposits). The bank is currently trading at 2024E 0.7x P/B and 2.2x P/E based on our estimates. We expect 37% ROE in 2024 (2023E: 43%). TSKB has been a member of our Model Portfolio since Nov '22 and provided a 28% relative return vs. the XU100.

BİM: Following a very strong stock performance in 2023 (+66% to BIST100), we expect the stock's outperformance to continue on the back of the inflationary tailwinds, solid floor space expansion of c.8% y/y, and the prospect of a resilient FCF margin of c.2% for 2024. We calculate 68% revenue growth with an EBITDA margin of 7.4% in 2024. We think that its defensive nature and undemanding 2024e multiples of 6.4x EV/EBITDA and 10.8x P/E likely to keep investor interest alive.

Turkish Airlines: We like THY on i) its market share gains thanks to its agile approach to introducing new capacities in the post-Covid era and high yield environment with broadly similar resources (e.g. fleet, personnel). We believe the company's above-sector profitability and growth will continue in 2024 which deserves higher levels than stock's current trading multiples (ii= We welcome the strength in the company's financials in 2023, marked by record high margins (i.e. ~30% EBITDAR margin) and record low indebtedness (~1.2x Net Debt / EBITDA) on top of already strong 2022 results and expect it to broadly continue, especially in the first half of 2014 3) Our target price based on our target EV/EBITDA of 5.2x which we apply for our 2024 forecasts offers c.60% upside and the longer the company maintains its currently above 12% ROIC and generate strong cash, we see the re-rating in the stock to prevail.

Sok Market: On the back of the supportive inflation outlook and robust customer demand prospect, and 7% y/y floor space growth, we expect Sok to deliver 67% y/y revenue growth in 2024. On the operating profitability side, following the heightened costs, we estimate 57% y/y EBITDA growth. Despite that, we estimate a 2% FCF margin which we deem quite positive. Based on our estimates, the stock trades at an attractive multiples of 3.7x EV/Adj. EBITDA and 7.4x P/E. Hence, we foresee the company's outperformance to continue in 2024.

AG Anadolu Grubu Holding: AGHOL posted strong financial results in 9M23 on the back of eye catching results in the core businesses (AEFES, CCOLA, and MGROS). We expect positive momentum in the financials to continue and the Holding to end the year with 144% y/y net earnings growth in 2023. For 2024, we forecast AGHOL to post a 61% y/y revenue and 45% y/y EBITDA growth on the back of solid Outlook in AEFES side and well above CPI top-line growth prospect from Migros. We favor the Anadolu Grubu Holding considering its defensive core businesses, geographically diversified revenue stream, declining leverage (0.4x net debt/EBITDA), and low working capital needs. Note that, AGHOL has a NAV discount of 35% based on our estimate. We consider it offers a safe play in the current macroeconomic theme.

Aksigorta: We prefer non-life insurers in the current macro economic environment. 1) We foresee Aksigorta to benefit from high TL deposit interest rates, improving Türkiye CDS and real TL appreciation 2) We foresee the company's EPS growth at +132% in 2024 and generate 47% ROE. Aksigorta is trading at 2.3x P/B and 5.9x P/E on our 2024 estimates. Aksigorta has been a member of our Model Portfolio since Sept'23 and provided a 2% relative return vs. the XU100.

Aksa Enerji: Aksa Enerji. 1) We foresee strong international EBITDA contribution thanks to increasing Power Purchasing Agreement (PPA) share (c.64% as of 9M23 vs 49% in 2022) which gives a resilient stance for the stock during subdued spot prices in Türkiye. Our current estimates are based on +60% sustainable international EBITDA share if not above 70% in the long-term. 2) Improved free cash flow yield (13% as of 9M23 vs 10% pre-pandemic 5-yr average) is expected to be maintained with guaranteed capacity payments through international power plants. We foresee c.20% sustainable yield between 2024-2030. 3) We believe Turkish spot wholesale electricity prices (current USD72/MWh vs USD147/MWh in 2022, on average) are finally protected from downside risk since most of the post-pandemic rally has been normalized. 4) The stock is trading at undemanding 5.3x EV/EBITDA and 6.8x P/E multiples based on our 2024 estimates with implying 23% and 46% discount, respectively to its 5-yr averages.

Mavi: We are adding Mavi <MAVI TI> in our model portfolio. We expect 2024 to be another strong year for the company on the back of its solid market positioning, strong brand awareness, and wide range of product portfolio. We estimate 55% LfL growth for the Company in 2024 while conservatively projecting a tad 2% y/y ticket growth considering a lower demand in 2H24. Conservatively, we projected a c.200bps gross margin contraction in 2H24, taking into account broadly similar reasoning and a possible scenario of increased competition. Still, we calculate a 61% y/y net sales and 49% y/y EBITDA growth in 2024. Incorporated with that, our figures implies a FCF margin of 6% in 2024 which we deem quite positive. Also, Mavi's healthy balance sheet with a net cash position of TL2.1bn (8% of mcap) gives us further confidence in our bullish stance.

Türk Telekom: Türk Telekom is likely to stand out given its strong growth outlook on the back of the price hikes/re-contracting of the existing customer base, upsell efforts, solid subscriber addition. Accordingly, we expect Turk Telekom to post 65% y/y top-line and 75% y/y EBITDA growth in 2024. Based on our estimates, TTKOM shares trade at 3.5x EV/EBITDA, signaling a discount of c.20% compared to its five-year historical multiples. Hence, we believe that TTKOM shares likely to get more investor attentions with its shiny 2024 prospects as well as undemanding valuation multiples.

Coca Cola: We are removing Coca-Cola İçecek <CCOLA TI> from our model portfolio after its huge outperformance (c.40% compared to BIST100 Index in the last six months). The stock has been in our portfolio for the past few years and we still keep our positive stance towards the stock given its resilient demand outlook, strong pricing ability, and resilient FCF growth prospect. However, considering our narrowing upside potential expectation after the recent rise, we prefer to take profit at this stage and remove the stock from our model portfolio.

YKY Coverage Outlook

Sectors	2023E			2024E			2025E		
	Revenue	EBITDA	Net income	Revenue	EBITDA	Net income	Revenue	EBITDA	Net income
Banking			17%			17%			55%
Insurance and Pension			270%			68%			28%
Investment			54%			59%			44%
Non-Banks	54%	54%	45%	59%	49%	39%	36%	39%	42%
Automotive	87%	95%	99%	67%	36%	25%	51%	43%	46%
Aviation	61%	49%	62%	66%	55%	25%	39%	50%	60%
Conglomerate	69%	66%	115%	62%	52%	49%	34%	38%	35%
Defence	78%	69%	66%	63%	60%	28%	34%	32%	7%
Energy	-40%	11%	-3%	66%	42%	33%	26%	20%	24%
Food & Beverages	67%	83%	169%	62%	55%	58%	32%	31%	39%
Oil & Gas	20%	37%	11%	35%	12%	20%	24%	22%	26%
Petrochemical	-5%	-30%	-45%	58%	204%	122%	29%	55%	44%
Retail	84%	70%	62%	69%	61%	50%	37%	37%	37%
Steel	25%	-16%	-97%	46%	58%	n.m.	33%	62%	55%
Telecom	71%	63%	58%	62%	62%	56%	32%	32%	43%
White Goods	54%	82%	-2%	52%	53%	43%	35%	33%	55%

Banks: We foresee 17% EPS expansion for our Tier-1 private banks coverage in 2024 (vs. +20% y/y growth in 2023E). Based on our forecasts, 3 Tier-1 private banks under our coverage trade at 2024E P/B and P/E of 0.85x and 3x, respectively, with an expected 2023 ROE of 32% (vs. 37% in 2023E). We continue to favor private names, including **AKBNK**, **GARAN**, **ISCTR**, and **TSKB**, all of which we have a **BUY** rating on. The Bloomberg consensus 12M forward P/B and P/E estimates for the XBANK are at 0.6x and 2.4x, respectively. The P/B multiple indicates a c.30% discount to MSCI EM banks.

				PE (x)			P/B (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Banking									
AKBNK	58,0	34%	BUY	1,9	3,0	2,0	0,6	0,8	0,6
ALBRK	4,9	23%	HOLD	2,7	3,0	2,0	0,7	0,7	0,5
GARAN	89,0	31%	BUY	2,0	3,0	1,9	0,7	0,9	0,6
HALKB	15,0	16%	HOLD	8,6	8,3	4,1	0,7	0,7	0,6
ISCTR	34,0	31%	BUY	2,4	3,1	2,0	0,7	0,8	0,6
TSKB	11,0	46%	BUY	2,2	2,2	1,9	0,7	0,7	0,5
VAKBN	18,0	22%	HOLD	4,2	4,9	3,2	0,7	0,8	0,6

Pension: We foresee pension assets under management (AuM) growing by c.60% in 2024 (vs. 80% in 2023) on the back of a more visible macroeconomic outlook and strengthening capital markets. **Anadolu Hayat** and **Agesa's** pension businesses should continue to generate sustainable profitability.

Life Insurance: Life insurance gross written premium (GWP) production is highly dependent on TL consumer loan growth. Hence, sluggish TL consumer loan growth in 2024 should negatively impact life insurance companies. We foresee both **Anadolu Hayat** and **Agesa** registering slower GWP growth of c.50% during 2024 compared to c.100% in 2023.

Non-life insurance: For **Aksigorta** and **Türkiye Sigorta**, we expect c.65% GWP growth and gradual recovery of technical results. The insurance regulator introduced various sector supportive actions on loss making MTPL segment effective from 1 January which should support technical results. These insurers' also benefit from limited TL depreciation since their claims on MoD and MTPL are dependent on the level of Turkish Lira. Additionally, these companies' expanding assets under management should continue to support investment income gains. Elevated TL deposit rates and improving Türkiye CDS should boost their investment gains.. We expect **Türkiye Sigorta** to distribute dividends (expected yield of 4%) while we foresee **Aksigorta** refraining, mainly due to a relatively weaker solvency ratio.

				PE (x)			P/B (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Insurance and Pension									
AKGRT	8,2	34%	BUY	9,8	5,9	3,8	2,6	2,3	1,6
ANHYT	55,0	40%	BUY	4,8	4,7	3,9	2,0	1,9	1,5
AGESA	70,0	27%	HOLD	6,1	5,2	4,0	2,8	2,3	1,6
TURSG	62,0	39%	BUY	3,7	4,5	3,6	1,9	2,3	1,6

Investment: We foresee **Ünlü Yatırım Holding** delivering solid earnings growth in 2024 based on our expectation of higher foreign investor demand in the Turkish capital markets. We foresee institutional sales and M&A businesses benefitting from potential foreign entry to the Turkish capital markets. Ünlü Yatırım Holding's NPL business should also provide resilience and support company earnings during 1H24 since NPL collections remain solid amid the inflationary environment & due to the positive impact of the minimum wage increase. **The company will adapt inflation accounting starting from YE23. Based on our preliminary estimates, we would expect to observe the company to record monetary losses which will pull down earnings. We did not incorporate any potential negative impact of inflation accounting into our estimates.**

				PE (x)			P/B (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Investment									
UNLU	23,0	39%	HOLD	5,7	4,4	3,1	1,8	1,6	1,1

Automotive: After a record-breaking 2023 performance, the 2024 outlook is mixed for domestic market. On the back of higher promotions which provides favorable funding opportunities, still narrow gap between brand-new and used vehicle prices, recovery in fleet demand may contribute 2024 sales despite adverse impact of tighter monetary policy. Also, we believe that a stronger than expected TL scenario for 2024 may lead a stronger customer

demand. In light of these, we updated our forecasts for the LV sales (PC+LCV) to 900k unit sales. On the export market, although the sales were higher by c.16% in 11M23, it is still low compared to its historical averages. Therefore, despite recessionary headwinds, we do not expect a bold downturn in demand for 2024. Among the stocks in our automotive coverage, our preferred pick is FROTO as the company is set to benefit from its increasing footprint in European automotive market along with its well-executed capacity expansion strategy.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Automotive									
FROTO	1220,0	55%	BUY	7,2	6,3	4,5	7,6	6,3	4,7
OTKAR	600,0	40%	HOLD	24,7	13,8	9,9	12,9	9,1	7,0
TOASO	330,0	44%	BUY	6,6	5,2	3,0	5,7	4,6	2,7
TTRAK	890,0	27%	HOLD	6,1	8,3	7,0	4,3	6,5	5,4

Aviation: We expect 2024 to be broadly similar to 2023 in terms of capacity growth. We harbor the primary concerns over weak global demand growth and softer yields on grounds of normalization. And yet we believe that Turkish players could still positively decouple from the competition on their inherent cost advantages, maintaining high margins. We expect no sharp deterioration in demand, but rather normalization, and a gradual recovery rather than swift and sizeable capacity increases from peers. But as such, we are not too concerned over the 2024 outlook for Turkish carriers, or their financials, especially for 1H24. Last year's low base stemming mostly from the earthquake in Feb'23 which triggered flight cancellations and free evacuation and cargo flights, suggest the current strength in financials will not disappear at any time soon. While we are BUYers of all three names, our top-pick is THYAO, followed by TAVHL and PGSUS.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Aviation									
PGSUS	1000,0	40%	BUY	7,3	5,4	3,7	6,4	5,6	4,4
TAVHL	180,0	46%	BUY	6,5	6,0	3,8	7,5	6,2	4,1
THYAO	400,0	59%	BUY	3,4	3,7	2,3	4,8	4,5	3,1

Conglomerates: Turkish household use electricity prices are among the lowest in Europe. Thanks to ongoing subsidies, elevated natural gas costs on BOTAS have not been fully reflected to national tariffs to shield the end-user. We expect strong prospect for Alarko Holding <ALARK TI> once natural gas and/or electricity price subsidies have lifted.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Conglomerate									
AGHOL	330,0	52%	BUY	3,9	3,9	2,7	2,7	2,4	2,0
ALARK	140,0	48%	BUY	2,9	2,4	1,9	n.m.	n.m.	40,8
ENKAI	49,2	41%	BUY	13,0	8,5	6,3	3,6	0,8	1,8

Defense: The Presidency of the Republic of Türkiye Defense Industry Agency (SSB) plans to realize over 700 projects with an estimated value of USD70bn. Considering Türkiye's annual USD15-16bn military spend, approximately 4-5 years of project initiation is about to materialize. Therefore, we expect Aselsan <ASELS TI> to increase its sustainable backlog above USD13bn by 2030 but foresee negative free cash flow unchanged.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Defence									
ASELS	60,0	26%	HOLD	7,8	8,6	8,0	10,2	8,8	6,8

Energy: As of October 2023, the energy source based price cap application was lifted and the market returned to spot prices via EXIST. Due to eased fossil fuel costs, spot prices have already tilted to ceiling prices and a further 6-month extension was not exercised. Through muted commodity prices, renewable/nuclear capacity additions, and a weaker demand environment, spot prices are expected to head south in the long run. In such an environment, we expect Aksa Enerji <AKSEN TI> to be benefited from foreign investments via PPAs with guaranteed EBITDA contribution.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Energy									
AKSEN	55,0	69%	BUY	9,7	6,8	5,4	7,8	5,3	4,5

Food & Beverage: We expect the increase in unit prices amid inflationary environment will continue to be main driver of revenue growth for Coca-Cola Icecek <CCOLA TI>. On consolidated terms, we estimate a 64% y/y net sales growth while conservatively projecting a mere volume increase in 2024. On the cost side, c.60% of resin and aluminum procurements of 2024 are already hedged. Thus, we remain positive regarding the EBITDA performance, expecting growth of 63% y/y. For Anadolu Efes <AEFES TI>, we expect a slight contraction in the domestic sales volume after 9% y/y increase in 2023 as well as remaining cautious in Russia considering the competition. Still, we foresee 63% y/y net sales growth in 2024. However, on the margin side, we see c.120 bps y/y contraction in margin primarily due to difficulty in accessing hedging instruments in Russia. For Ulker <ULKER TI>, following its strong deleveraging and margin expansion, the Company delivered strong set of results in 2023; thus, Ulker shares outperformed BIST100 Index by c.38% in 2023. Historically demand for the company's small ticket confectionary product portfolio consumed primarily through the off-trade channel has been less affected by macro challenges. Even though we foresee a normalization in EBITDA margin in 2024, we still calculate a satisfactory 43% y/y EBITDA growth in 2024, considering last year's high base. But we believe that this may be priced in on a large degree. Still, we would like to remind that any strengthening of the TL in 2024 may be a value driver for the company considering its short FX position.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Food & Beverages									
AEFES	190,0	43%	BUY	5,6	6,1	4,4	3,8	3,3	2,5
CCOLA	690,0	38%	BUY	9,0	9,1	6,5	4,9	4,7	3,4
ULKER	110,0	38%	HOLD	7,4	6,6	5,1	4,1	4,1	3,5

Oil and Gas: Since Türkiye is not a member of G7, Russian crude oil Ural procurement is still available without the obstacle of sanctions. In 9M23, Turkish refineries imported 22.9mn tons of crude oil, with c.27% being Ural crude from Russia. In terms of price and logistics, Ural crude oil availability gives a competitive advantage to Turkish refineries. Thus, we expect Tupras <TUPRS TI> to experience muted crack spread outlook in 2024 but welcome the net cash position. The Turkish LPG market maintains its 4.0mn ton annual demand level. The lion's share of the market goes to autogas at 3.1mn tons. This is due to consistently shrinking household cylinder gas demand arising from rising pipeline natural gas penetration. We foresee limited growth prospect for Aygaz <AYGAZ TI> in Türkiye but expect positive contribution from Bangladesh as of 2025.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Oil & Gas									
AYGAZ	170,0	26%	HOLD	4,2	5,2	4,1	13,6	16,5	13,3
TUPRS	195,0	40%	HOLD	4,5	4,9	3,9	2,1	2,8	2,2

Petrochemicals: Following the imposing of sanctions against Russia, polymer exports to Europe became re-routed to Türkiye. Considering also the oversupply situation in China, Turkish product margins are almost solely dependent on imported global prices, especially from Russia and China. High naphtha costs with discounted imported product prices, domestic producers do bear lower margins. Therefore, we expect no dramatic recovery on Petkim <PETKM TI> ethylene-naphtha spread in 2024 but welcome the latest STAR Refinery actions.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Petrochemical									
PETKM	25,0	23%	HOLD	12,3	6,5	4,5	30,3	11,9	8,0

Retailers: After a very strong 2023 amid inflationary tailwinds, market share gains, and robust store additions, all retailers under our coverage have posted above-inflation top-line and EBITDA growth, and their share prices have widely surpassed BIST100 Index. For 2024, we believe that inflation will continue to be the key driver of the growth outlook. On retail space expansion side, we foresee broadly similar performance in 2024. We see that all national chains will experience difficulties on the cost front in 2024 due to rising input costs, namely, personnel costs and the lagged impact of inflationary adjustments in rental costs, will pressure operating margins in 2024. Still we foresee, FCF margins to remain broadly robust in the full year with the potential of strong operating leverage. Hence, we continue to keep our positive stance for all of the food retailers under our coverage, Bim <BIMAS TI>, Migros <MGROS TI>, and Sok Marketler <SOKM TI>.

For Mavi, we believe that its strong market positioning and wide range of product portfolio will lead to sustain its strong performance in 2024. We forecast a 55% LfL growth in 2024 while conservatively penciling in a limited 2% ticket growth. On the costs side, we expect solid LfL growth to largely compensate for opex pressure. However, remaining conservative, we forecast a 200bps gross margin contraction considering a weaker demand in 2H24. Still, on the back of its healthy balance sheet with a net cash of TL2.1bn (exl. Lease obligations), robust FCF margin and attractive multiples, we think that the stock provides a good opportunity for the investors.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Retail									
BIMAS	510,0	52%	BUY	11,3	10,8	7,7	6,8	6,6	4,9
MAVI	190,0	49%	BUY	5,8	6,7	5,6	3,0	3,1	2,2
MGROS	580,0	54%	BUY	8,2	8,4	6,1	4,1	3,4	2,1
SOKM	87,6	58%	BUY	6,7	6,8	5,0	3,2	2,2	1,0

Steel: Due to domestic steelmakers' lack of competitiveness and correspondingly increased imports, investigations into harmful imports have recently been made. Ongoing protectionism of the domestic steel industry should support higher CUR and expanding margins via pricing ability. We assume Kardemir <KRDMD TI> to benefit from the recent demand and safeguards regarding to protect the local long steel mills. However, we expect Erdemir <EREGL TI> to be fragile against subdued European demand and weak flat steel price outlook due to Chinese oversupply.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Steel									
EREGL	55,0	26%	HOLD	neg.	10,7	6,9	9,9	7,3	5,0
KRDMD	40,0	53%	BUY	13,3	7,2	4,7	4,4	3,0	2,2

Telecoms: On the back of i) risen prices, ii) upsell efforts, iii) robust subscriber additions, the ongoing re-contracting of the existing customer base, iv) customer shift from pre-paid to post-paid in mobile segment, we expect 2024 to be a strong year for Turkish telcos. Hence, we expect ARPU levels, especially in 1H24, to be quite positive for both telecom companies, Turkcell <TCELL TI> and Turk Telekom <TTKOM TI>. On the EBITDA margin front, we expect some degree of contraction in TCELL due to higher energy and personnel costs whereas TTKOM likely to expand its EBITDA margin around along with the lagged impact of contract rebalancing. Overall, we expect revenue and EBITDA growth of 60% and 55% for Turkcell and 65% and 73% for Turk Telekom, respectively, in 2024. TTKOM is our top pick in the sector.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
Telecom									
TCELL	88,8	46%	BUY	5,8	5,2	3,9	3,3	3,1	2,5
TTKOM	45,9	61%	BUY	10,0	8,5	5,1	4,5	3,5	2,8

White Goods: After a strong demand environment in domestic white good sector in 2023 (11M23: 15% volume growth), we expect c. 7% y/y contraction considering the high base and the adverse impact of tightening in monetary policy in demand which may result in lesser renewals. Still, the sector may start the year relatively strong supported by the salary hikes and low base of 1Q23. On the export side, the sales may continue to be fragile this year, especially in the first half, due to the recessionary headwinds in Europe which is the main market for white goods producers of Türkiye. However, we may see a better demand environment in 2H24. We expect operating margins to remain firm thanks to the stabilization in raw material prices and more favorable EURUSD rates. Still, we opt to remain cautious for Arcelik <ARCLK TI> while estimating a negative FCF generation amid its high working capital requirement.

				PE (x)			EV/EBITDA (x)		
	Target (TL/sh)	Upside (%)	Rating	23E	24E	25E	23E	24E	25E
White Goods									
ARCLK	185,0	40%	HOLD	20,8	14,8	9,5	6,7	5,1	4,1

Appendix

1) YKY Non-Bank Coverage – 2023/24 Outlook

	Net Sales			EBITDA			Net Income		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
AEFES	65%	63%	33%	81%	54%	32%	159%	46%	39%
AGHOL	85%	61%	32%	94%	45%	34%	144%	47%	45%
AKSEN	-40%	66%	26%	11%	42%	20%	-3%	33%	24%
ALARK	18%	52%	28%	-1%	41%	18%	16%	27%	26%
ARCLK	54%	52%	35%	82%	53%	33%	-2%	43%	55%
ASELS	78%	63%	34%	69%	60%	32%	66%	28%	7%
AYGAZ	35%	40%	26%	180%	15%	27%	12%	8%	25%
BIMAS	80%	68%	35%	70%	63%	36%	39%	66%	40%
CCOLA	72%	64%	33%	89%	63%	33%	96%	64%	41%
ENKAI	30%	67%	43%	18%	75%	48%	n.m.	70%	36%
EREGL	22%	45%	34%	-24%	55%	69%	n.m.	n.m.	55%
FROTO	94%	69%	41%	91%	41%	39%	88%	25%	39%
KRDMD	38%	49%	29%	32%	66%	39%	-15%	110%	53%
MAVI	89%	61%	30%	92%	49%	28%	93%	37%	19%
MGROS	96%	73%	40%	70%	68%	42%	121%	42%	38%
OTKAR	137%	73%	33%	174%	114%	37%	10%	173%	40%
PETKM	-5%	58%	29%	-30%	204%	55%	-45%	122%	44%
PGSUS	68%	72%	44%	60%	63%	44%	25%	52%	47%
SOKM	80%	67%	38%	60%	57%	38%	59%	27%	37%
TAVHL	91%	77%	44%	85%	76%	50%	194%	33%	60%
TCELL	73%	60%	33%	81%	55%	32%	51%	54%	32%
THYAO	59%	65%	38%	45%	51%	51%	62%	22%	62%
TOASO	53%	81%	91%	52%	41%	62%	100%	30%	70%
TTKOM	69%	65%	30%	42%	73%	32%	76%	61%	67%
TTRAK	116%	26%	37%	237%	-10%	22%	199%	-5%	19%
TUPRS	19%	35%	24%	36%	12%	22%	11%	21%	27%
ULKER	63%	53%	28%	78%	43%	23%	n.m.	76%	29%

2) YKY Coverage at a Glance

Ticker	Current Price * (TL)	Target Price (TL)	Upside (%)	Rating	Mcap (USDmn)	Free Float (%)	3m Avg. Daily Turn.		PE (x)			EV/EBITDA (x) (P/BV for Banks)		
							TLmn	USDmn	23E	24E	25E	23E	24E	25E
AEFES	133,10	190,00	43%	BUY	2.626	32	383	13	5,6	6,1	4,4	3,8	3,3	2,5
AGESA	55,00	70,00	27%	HOLD	330	20	30	1	6,1	5,2	4,0	2,8	2,3	1,6
AGHOL	217,20	330,00	52%	BUY	1.762	34	150	5	3,9	3,9	2,7	2,7	2,4	2,0
AKBNK	43,26	58,00	34%	BUY	7.494	52	3.325	115	1,9	3,0	2,0	0,6	0,8	0,6
AKGRT	6,12	8,20	34%	BUY	329	28	189	7	9,8	5,9	3,8	2,6	2,3	1,6
AKSEN	32,50	55,00	69%	BUY	1.328	21	220	8	9,7	6,8	5,4	7,8	5,3	4,5
ALARK	94,55	140,00	48%	BUY	1.370	31	601	21	2,9	2,4	1,9	n.m.	n.m.	40,8
ALBRK	3,98	4,90	23%	HOLD	331	38	129	5	2,7	3,0	2,0	0,7	0,7	0,5
ANHYT	39,30	55,00	40%	BUY	563	17	31	1	4,8	4,7	3,9	2,0	1,9	1,5
ARCLK	132,30	185,00	40%	HOLD	2.978	15	494	17	20,8	14,8	9,5	6,7	5,1	4,1
ASELS	47,54	60,00	26%	HOLD	7.222	26	2.329	81	7,8	8,6	8,0	10,2	8,8	6,8
AYGAZ	135,00	170,00	26%	HOLD	989	24	131	5	4,2	5,2	4,1	13,6	16,5	13,3
BIMAS	335,00	510,00	52%	BUY	6.777	60	1.281	45	11,3	10,8	7,7	6,8	6,6	4,9
CCOLA	500,00	690,00	38%	BUY	4.237	25	224	8	9,0	9,1	6,5	4,9	4,7	3,4
ENKAI	34,98	49,19	41%	BUY	6.992	12	907	32	13,0	8,5	6,3	3,6	0,8	1,8
EREGL	43,80	55,00	26%	HOLD	5.107	48	3.030	105	neg.	10,7	6,9	9,9	7,3	5,0
FROTO	787,00	1220,00	55%	BUY	9.201	18	922	32	7,2	6,3	4,5	7,6	6,3	4,7
GARAN	67,80	89,00	31%	BUY	9.487	14	1.923	67	2,0	3,0	1,9	0,7	0,9	0,6
HALKB	12,95	15,00	16%	HOLD	3.100	9	605	21	8,6	8,3	4,1	0,7	0,7	0,6
ISCTR	25,96	34,00	31%	BUY	8.649	31	3.783	131	2,4	3,1	2,0	0,7	0,8	0,6
KRDMD	26,12	40,00	53%	BUY	929	89	1.316	46	13,3	7,2	4,7	4,4	3,0	2,2
MAVI	127,10	190,00	49%	BUY	841	73	224	8	5,8	6,7	5,6	3,0	3,1	2,2
MGROS	376,50	580,00	54%	BUY	2.271	51	530	18	8,2	8,4	6,1	4,1	3,4	2,1
OTKAR	427,75	600,00	40%	HOLD	1.710	27	199	7	24,7	13,8	9,9	12,9	9,1	7,0
PETKM	20,40	25,00	23%	HOLD	1.722	47	1.982	69	12,3	6,5	4,5	30,3	11,9	8,0
PGSUS	715,00	1000,00	40%	BUY	2.437	43	1.337	46	7,3	5,4	3,7	6,4	5,6	4,4
SOKM	55,40	87,60	58%	BUY	1.095	51	459	16	6,7	6,8	5,0	3,2	2,2	1,0
TAVHL	123,00	180,00	46%	BUY	1.489	48	407	14	6,5	6,0	3,8	7,5	6,2	4,1
TCELL	61,00	88,80	46%	BUY	4.471	54	1.738	60	5,8	5,2	3,9	3,3	3,1	2,5
THYAO	251,00	400,00	59%	BUY	11.540	50	8.834	307	3,4	3,7	2,3	4,8	4,5	3,1
TOASO	229,60	330,00	44%	BUY	3.825	24	950	33	6,6	5,2	3,0	5,7	4,6	2,7
TSKB	7,51	11,00	46%	BUY	701	39	406	14	2,2	2,2	1,9	0,7	0,7	0,5
TTKOM	28,56	45,90	61%	BUY	3.330	13	1.123	39	10,0	8,5	5,1	4,5	3,5	2,8
TTRAK	702,00	890,00	27%	HOLD	2.340	24	429	15	6,1	8,3	7,0	4,3	6,5	5,4
TUPRS	139,70	195,00	40%	HOLD	8.968	49	3.947	138	4,5	4,9	3,9	2,1	2,8	2,2
TURSG	44,68	62,00	39%	BUY	1.729	18	203	7	3,7	4,5	3,6	1,9	2,3	1,6
ULKER	79,90	110,00	38%	HOLD	983	39	645	23	7,4	6,6	5,1	4,1	4,1	3,5
UNLU	16,56	23,00	39%	HOLD	97	34	23	1	5,7	4,4	3,1	1,8	1,6	1,1
VAKBN	14,79	18,00	22%	HOLD	4.886	6	961	33	4,2	4,9	3,2	0,7	0,8	0,6

Source: Company Financials, YKY Research, *as of Jan 12, 2024 closing price

3) Changes in Our Target Prices and Recommendations

(TL)	Recommendations			Target Price		
	OLD	NEW	Change	OLD	NEW	Δ
AEFES	BUY	BUY		150,0	190,0	↑ 27%
AGESA	HOLD	HOLD		67,0	70,0	↑ 4%
AGHOL	BUY	BUY		304,0	330,0	↑ 9%
AKBNK	BUY	BUY		45,0	58,0	↑ 29%
AKGRT	BUY	BUY		8,2	8,2	↑ 0%
AKSEN	*	BUY		-	55,0	n.m.
ALARK	BUY	BUY		105,7	140,0	↑ 32%
ALBRK	HOLD	HOLD		4,7	4,9	↑ 4%
ANHYT	UNDERPERFORM	BUY	BUY	46,0	55,0	↑ 20%
ARCLK	*	HOLD		-	185,0	n.m.
ASELS	*	HOLD		-	60,0	n.m.
AYGAZ	*	HOLD		-	170,0	n.m.
BIMAS	BUY	BUY		210,0	510,0	↑ 143%
CCOLA	BUY	BUY		485,0	690,0	↑ 42%
ENKAI	*	BUY		-	49,2	n.m.
EREGL	*	HOLD		-	55,0	n.m.
FROTO	BUY	BUY		1.340,0	1.220,0	↓ -9%
GARAN	BUY	BUY		68,0	89,0	↑ 31%
HALKB	HOLD	HOLD		15,5	15,0	↓ -3%
ISCTR	BUY	BUY		29,5	34,0	↑ 15%
KRDMD	*	BUY		-	40,0	n.m.
MAVI	BUY	BUY		85,0	190,0	↑ 124%
MGROS	BUY	BUY		480,0	580,0	↑ 21%
OTKAR	*	HOLD		-	600,0	n.m.
PETKM	*	HOLD		-	25,0	n.m.
PGSUS	BUY	BUY		630,0	1.000,0	↑ 59%
SOKM	BUY	BUY		48,0	87,6	↑ 83%
TAVHL	BUY	BUY		165,0	180,0	↑ 9%
TCELL	*	BUY	BUY	-	88,8	n.m.
THYAO	BUY	BUY		360,0	400,0	↑ 11%
TOASO	BUY	BUY		434,0	330,0	↓ -24%
TSKB	BUY	BUY		9,8	11,0	↑ 12%
TTKOM	*	BUY		-	45,9	n.m.
TTRAK	**	HOLD	HOLD	-	890,0	n.m.
TUPRS	*	HOLD		-	195,0	n.m.
TURSG	HOLD	BUY	BUY	49,0	62,0	↑ 27%
ULKER	*	HOLD		-	110,0	n.m.
UNLU	HOLD	HOLD		23,0	23,0	↑ 0%
VAKBN	HOLD	HOLD		19,5	18,0	↓ -8%

* Transfer of Coverage ** Initiation of Coverage

4) Estimate Changes in Our Coverage

(TL)	Net Sales		EBITDA		Net Income	
	2023E	2024E	2023E	2024E	2023E	2024E
Banks					-5%	-11%
Insurance					-6%	17%
Investment					-8%	-3%
Non-Financial					5%	5%
AKBNK					-7%	-11%
GARAN					-1%	-5%
HALKB					-19%	-36%
ISCTR					-4%	-9%
VAKBN					-6%	-24%
ALBRK					6%	8%
TSKB					-2%	11%
AKGRT					-37%	-7%
ANHYT					-4%	1%
AGESA					-6%	7%
TURSG					-2%	30%
UNLU					-8%	-3%
AEFES	0%	4%	0%	0%	5%	-1%
AGHOL	1%	4%	1%	-5%	15%	7%
AKSEN	7%	52%	-11%	-4%	13%	15%
ALARK	-9%	16%	-57%	-49%	16%	34%
ARCLK	1%	19%	0%	14%	-20%	-44%
ASELS	25%	42%	39%	54%	35%	51%
AYGAZ	2%	17%	-35%	-37%	49%	50%
BIMAS	2%	18%	6%	14%	2%	20%
CCOLA	0%	7%	3%	9%	-1%	4%
ENKAI	-2%	30%	-12%	19%	2%	34%
EREGL	-11%	7%	-13%	-7%	n.m.	-22%
FROTO	-11%	-7%	-7%	-6%	-6%	-9%
KRDMD	-13%	6%	11%	29%	-46%	-35%
MAVI	29%	65%	39%	60%	36%	47%
MGROS	1%	7%	3%	5%	38%	36%
OTKAR	59%	92%	19%	64%	-47%	-2%
PETKM	-37%	-31%	-68%	-44%	5%	-3%
PGSUS	0%	30%	-3%	18%	-23%	-35%
SOKM	1%	23%	-4%	2%	30%	15%
TAVHL	15%	53%	14%	45%	108%	87%
TCELL	14%	44%	21%	44%	53%	52%
THYAO	-1%	6%	-3%	4%	10%	-2%
TOASO	-3%	-23%	-2%	-18%	-6%	-14%
TTKOM	22%	65%	7%	44%	-8%	-10%
TTRAK						
TUPRS	19%	32%	24%	44%	14%	37%
ULKER	17%	44%	33%	53%	n.m.	-54%

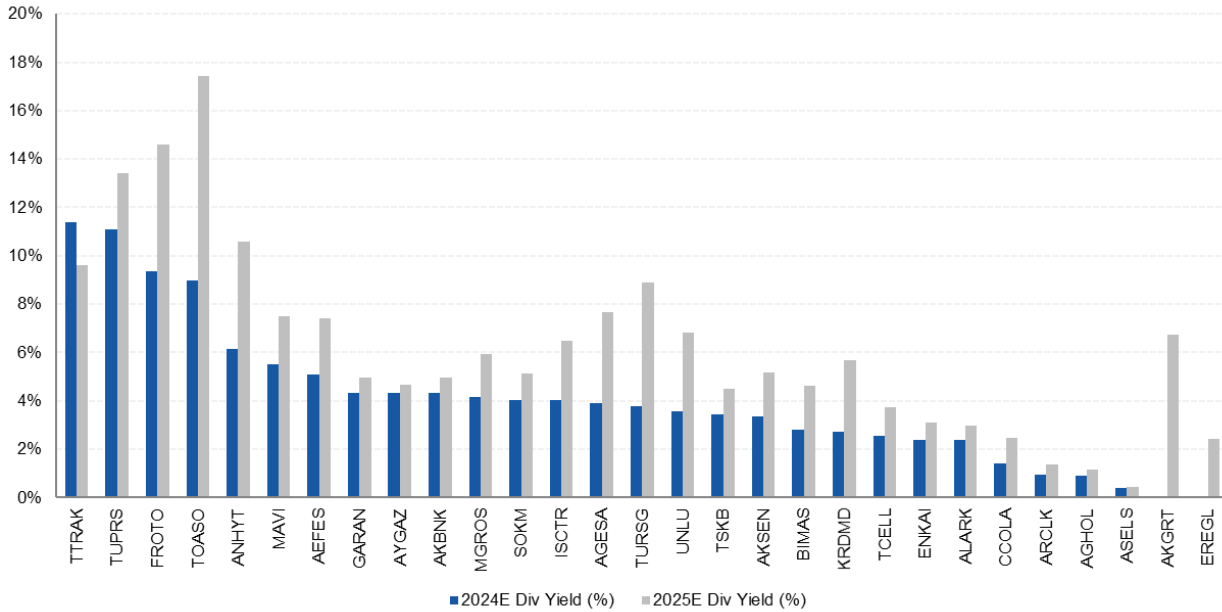
5) Growth Rates in Our Coverage

	Net Sales			EBITDA			Net Income		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Banks							17%	17%	55%
Insurance							270%	68%	28%
Investment							54%	59%	44%
Non-Financial	54%	59%	36%	54%	49%	39%	45%	39%	42%
AKBNK							8%	15%	49%
GARAN							41%	15%	61%
HALKB							-33%	13%	104%
ISCTR							13%	21%	54%
VAKBN							10%	15%	50%
ALBRK							133%	5%	48%
TSKB							78%	30%	19%
AKGRT							n.m.	132%	54%
ANHYT							92%	38%	21%
AGESA							55%	47%	31%
TURSG							n.m.	77%	26%
UNLU							54%	59%	44%
AEFES	65%	63%	33%	81%	54%	32%	159%	46%	39%
AGHOL	85%	61%	32%	94%	45%	34%	144%	47%	45%
AKSEN	-40%	66%	26%	11%	42%	20%	-3%	33%	24%
ALARK	18%	52%	28%	-1%	41%	18%	16%	27%	26%
ARCLK	54%	52%	35%	82%	53%	33%	-2%	43%	55%
ASELS	78%	63%	34%	69%	60%	32%	66%	28%	7%
AYGAZ	35%	40%	26%	180%	15%	27%	12%	8%	25%
BIMAS	80%	68%	35%	70%	63%	36%	39%	66%	40%
CCOLA	72%	64%	33%	89%	63%	33%	96%	64%	41%
ENKAI	30%	67%	43%	18%	75%	48%	n.m.	70%	36%
EREGL	22%	45%	34%	-24%	55%	69%	n.m.	n.m.	55%
FROTO	94%	69%	41%	91%	41%	39%	88%	25%	39%
KRDMD	38%	49%	29%	32%	66%	39%	-15%	110%	53%
MAVI	89%	61%	30%	92%	49%	28%	93%	37%	19%
MGROS	96%	73%	40%	70%	68%	42%	121%	42%	38%
OTKAR	137%	73%	33%	174%	114%	37%	10%	173%	40%
PETKM	-5%	58%	29%	-30%	204%	55%	-45%	122%	44%
PGSUS	68%	72%	44%	60%	63%	44%	25%	52%	47%
SOKM	80%	67%	38%	60%	57%	38%	59%	27%	37%
TAVHL	91%	77%	44%	85%	76%	50%	194%	33%	60%
TCELL	73%	60%	33%	81%	55%	32%	51%	54%	32%
THYAO	59%	65%	38%	45%	51%	51%	62%	22%	62%
TOASO	53%	81%	91%	52%	41%	62%	100%	30%	70%
TTKOM	69%	65%	30%	42%	73%	32%	76%	61%	67%
TTRAK	116%	26%	37%	237%	-10%	22%	199%	-5%	19%
TUPRS	19%	35%	24%	36%	12%	22%	11%	21%	27%
ULKER	63%	53%	28%	78%	43%	23%	n.m.	76%	29%

6) YKY Dividend Estimates

Ticker	2024E Div Yield (%)	2025E Div Yield (%)
TTRAK	11,4%	9,6%
TUPRS	11,1%	13,4%
FROTO	9,3%	14,6%
TOASO	9,0%	17,4%
ANHYT	6,2%	10,6%
MAVI	5,5%	7,5%
AEFES	5,1%	7,4%
GARAN	4,3%	5,0%
AYGAZ	4,3%	4,7%
AKBNK	4,3%	5,0%
MGROS	4,2%	5,9%
SOKM	4,0%	5,1%
ISCTR	4,0%	6,5%
AGESA	3,9%	7,7%
TURSG	3,8%	8,9%

Ticker	2024E Div Yield (%)	2025E Div Yield (%)
UNLU	3,6%	6,8%
TSKB	3,4%	4,5%
AKSEN	3,3%	5,2%
BIMAS	2,8%	4,6%
KRDMD	2,7%	5,7%
TCELL	2,5%	3,7%
ENKAI	2,4%	3,1%
ALARK	2,4%	3,0%
CCOLA	1,4%	2,5%
ARCLK	0,9%	1,4%
AGHOL	0,9%	1,1%
ASELS	0,4%	0,4%
AKGRT	0,0%	6,8%
EREGL	0,0%	2,4%



7) Inflation Accounting

'Capital Markets Board' (SPK) did the opposite of BDDK and SEDDK by announcing that companies subject to its financial reporting regulations must make a TMS29 restatement. The SPK also extended the notification period of companies' year-end financial statements by 10 weeks and granted an additional 6 weeks for the subsequent quarterly financials. Thus, the final announcement date of 4Q23 consolidated financials for listed companies is now May 20. Yet, banks, insurance companies, and other financial institutions that are exempted from inflation accounting will still announce their financials by March 11 at the latest.

All in all, inflation accounting is now about to be implemented for most BIST companies with certain exceptions, starting with their end-2023 financials, necessitating the restatement of 2021 and 2022 financials as well.

What is inflation accounting (TMS29), and how is it implemented?

TMS29, also known as the 'inflation accounting' practice, at its core, is an attempt to decompose the effects of high inflation on financial statements and to restate assets and liabilities to reflect their current purchasing power. High inflation reduces the usefulness of financial statements in reflecting the actual financial position of companies and makes it difficult to make meaningful comparisons of financial performance between periods. Furthermore, high inflation creates the risk of a real erosion of corporate equity through taxation of non-real earnings and/or dividend distribution. Therefore, the standard seeks to account for the adverse impact of high inflation on financials.

There is more than one method for calculating the effect of inflation on financial statements prepared under the historical cost convention. However, the method employed by TMS29 involves a "restatement using a general price index", namely CPI. This method, in essence, distinguishes between "monetary" and "non-monetary" items in a company's financial statements and adjusts "non-monetary" items to their current purchasing power using a general price index.

Under TMS29,

- All balance sheet items will be separated into "monetary" and "non-monetary," and only "non-monetary" assets and liabilities will be subject to restatement and indexation.
 - Monetary items, the main examples of which are cash and cash equivalents, trade receivables, trade payables, and bank loans, are not subject to adjustment because it is assumed that they reflect the current purchasing power at the end of the period.
 - Yet, non-monetary items, such as inventories, fixed assets, and deferred income, measured mostly at historical cost, are not considered to reflect current purchasing power and are restated by indexation.
 - Equity is assumed to be non-monetary and thus indexed under inflation adjustment
- All income statement items are assumed to be monetary and are restated by indexation. Other than various income statement items, particularly 'cost of goods sold' and 'depreciation,' whose end-of-period values depend on balance sheet items, all others will be indexed to the period-end index based on the index of the month in which they accrue.
- Indexation is simply the reflection of the index difference between two dates, which is called the "inflation factor." For example, a fixed asset purchased or revenues generated

amounting to, say TL500, on April 2023 when CPI was 1,300 will be restated on December 2023 financials as TL715, reflecting the increase in CPI in the same period (Dec'23 CPI / Mar'23 CPI * 500 = 1,859 / 1,300 * TL500 = TL715).

- After indexing (i) non-monetary assets, (ii) non-monetary liabilities, and (iii) income statement items, companies will define the amount that balances these three quantities in a way that ensures balance sheet equality. That balancing amount, which is called "monetary loss (gain)," will be disclosed in the income statement separately as a single line item. Thus, company equity will increase (decrease) according to the monetary loss (gain) level. In our above example, the difference between original balance and the indexed balance, TL215 (= TL715 – TL500) is named as "monetary gain".

Don't confuse it with tax-based inflation accounting

Our above comments concern inflation accounting according to TMS29/IFRS25, a replication of IAS29/IFRS25. Yet, there is another inflation adjustment in tax purposes financials prepared per [Tax Procedure Law](#) (VUK). Although both TMS29 and VUK approach to inflation with similar methodology, they are two separate and independent processes relying on different techniques.

The key technical differences we identify between the two are that CPI is taken as a general index in TMS29, and all financial statements (balance sheet & income table) are to be stated. In contrast, VUK relies on PPI as a general index, requiring only balance sheet restatement. Therefore, both practices will produce quite different results, especially considering the cumulative gap between CPI and PPI since 2004, the last time inflation accounting was implemented.

While inflation accounting under TMS29 was ultimately a restatement, resulting in no cash outlay as all other accounting practices, inflation accounting under VUK is not because monetary loss (gain) is subject to taxation. Thus, those companies that recognized monetary losses (gains) in tax law-based inflation accounting would pay lower (higher) taxes than they would be paying under no-adjusted financials. On the other hand, even though banks, insurance companies, and other financial companies will adjust their tax-purpose financials, the resulting monetary losses would not be considered as losses in their tax-calculation according to a legislation change which aims to prevent potential tax losses for the Treasury, in our view.

In what ways inflation accounting will impact financials?

Due to the indexation technique, inflation accounting will lead to different adjustment results for each company. Thus, with the available data, making company-specific exact calculations are impossible. Yet, once the mechanism is understood, drawing general and broad conclusions and making relative comparisons between companies about the potential impact are still possible to a certain extent.

From our understanding, the magnitude of inflation adjustment (i.e., how much-restated financials would deviate from current ones) would depend on three main factors.

- 1) The size of the company's net monetary position

Companies with a 'Net Monetary Position' will record 'monetary losses' while companies with a 'Net Non-Monetary Position' will record 'monetary gains'. In other words, the higher an asset's (liability) accounting value differs from its indexed value, the higher the company's recognized monetary gain (losses).

Accordingly, those companies financing their non-monetary assets with monetary liabilities, such as bank loans or trade payables, will post monetary gains. On the other hand, those companies which are in net monetary position, such as banks, will recognize monetary losses due to IAS 29 era.

2) How rapidly it depletes its inventory

The higher a company's inventory turnover (i.e., sells its inventories in a shorter period) is, the closer its accounting balances are to their market values (current purchasing power). So, the inflationary impact on such companies is lower than on those working with long inventory days.

Consequently, once TMS29 is implemented, companies with short inventory holding periods would record a lower monetary gain than those with longer duration. On the other hand, the erosion in the latter's gross margin in post-IAS29 than current would be higher. In contrast, all else being equal, companies with high inventory turnover (short days-in inventories) will record a lower monetary gain and their gross margin will be relatively less impacted from IAS29.

3) How large and yet to be depreciated the fixed assets are

Fixed assets are many companies' most influential non-monetary items and the most decisive ones regarding monetary losses (gains) in inflation accounting. On the one hand, their restatement can trigger a monetary gain, while on the other, it translates into higher depreciation expenses and lower profitability, thus taxes. Therefore, the older and larger a company's undepreciated fixed assets are, the greater the monetary gain it will recognize and the depreciation it will expense.

The effectiveness of inflation accounting is limited but better than current

We note that IAS29 is, after all, an accounting restatement that would not alter the company's cash balances or change the extent to which inflation harms or benefits a company in reality, but only the presentation of the financial statements. Yet, we still welcome the implementation of the TMS29 because we believe that financial statements, our primary source in understanding the economic profitability and cash generation capabilities of companies, will serve this purpose better than today's practice. In other words, all accounting-based valuation metrics or ratios, such as ROE and ROIC, are highly distorted under the current practice, yielding incomparably different results from those of previous years.

The effectiveness of inflation accounting is limited and should be, given that it is based on a single and general price index, which is, by definition, an average. Therefore, since it would not be possible for an average index to reflect each company's specific situation exactly, it would not be correct to expect that a standardized adjustment based on a single index would provide the same efficiency for each company. However, this does not change the fact that, in any case, inflation-adjusted financial statements will perform their function better than the scenario in which no adjustment is made.

Lastly, we perceive the exclusion of banks, insurance companies, and certain other financial institutions from inflation and their different treatment according to Tax Law as negative for them. This is because, unlike IAS29, simply an accounting restatement that might only be indirectly related to companies' valuation, VUK-based inflation accounting directly affects companies' valuation by changing the cash outlay.

How will our coverage be impacted?

As mentioned earlier, insufficient data is currently available to calculate the company-specific impact of inflation accounting. However, we endeavor to form an opinion on the direction of the effect and relative ranking. To do such analysis,

- We rely on the aforementioned core questions, which focus on (i) the size of the 'Net Monetary Position,' (ii) Inventory Turnover Days, and (iii) the Size and Undepreciated part of Fixed Assets.

- Additionally, we examine the past six years' financials and focus on the development of the key-accounting-based metrics of (i) ROE, (ii) Asset Turnover, and (iii) Gross Profitability to highlight the sizeable deviations from historical levels as a sign of inflationary impact. Although such analysis is hypothetical and the actual results may vary, we believe that, at the core, the approach still provides an understanding of the mechanism.

○ Net Monetary Position

Companies whose liabilities (assets) are mostly monetary (non-monetary) in nature are expected to record monetary gains after IAS29 restatement.

According to our calculation over end-Sep'23 and end-Dec'22 financials, we expect the highest inflationary monetary gains to be recorded by food retailers (SOKM, MGROS and BIMAS) thanks to their largest negative net monetary positions,. On the other hand, we expect companies such as ASELS and ALARK, which finance their assets mostly with their equity and have a net monetary position, to record an inflation adjustment loss.

Net Monetary Position of Companies Under Our Coverage (*)

	AEFES		AKSEN		ALARK		ARCLK		ASELS		AYGAZ		BIMAS		CCOLA		FROTO		KARDM	
	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22
Monetary Assets	38%	30%	32%	34%	39%	38%	54%	51%	63%	67%	42%	41%	31%	25%	41%	38%	49%	50%	33%	32%
Non-Monetary Assets	62%	70%	68%	66%	61%	62%	46%	49%	37%	33%	58%	59%	69%	75%	59%	62%	51%	50%	67%	68%
Monetary Liabilities	58%	57%	41%	43%	27%	27%	83%	80%	39%	39%	45%	53%	69%	60%	60%	61%	73%	77%	45%	44%
Non-Monetary Liabilities	42%	43%	59%	57%	73%	73%	17%	20%	61%	61%	55%	47%	31%	40%	40%	39%	27%	23%	55%	56%
Net Monetary Position (Avg)	-24%		-9%		12%		-29%		26%		-7%		-37%		-21%		-26%		-12%	
	MAVI		MGROS		OTKAR		SOKM		TCELL		TOASO		TTKOM		TTRAK		TUPRS		ULKER	
	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22	Sep'23	Dec'22
Monetary Assets	55%	54%	36%	32%	54%	56%	21%	14%	58%	54%	78%	84%	42%	37%	59%	61%	61%	55%	64%	63%
Non-Monetary Assets	45%	46%	64%	68%	46%	44%	79%	86%	42%	46%	22%	16%	58%	63%	41%	39%	39%	45%	36%	37%
Monetary Liabilities	58%	67%	84%	88%	79%	78%	82%	84%	71%	68%	63%	72%	69%	72%	57%	69%	71%	60%	78%	79%
Non-Monetary Liabilities	42%	33%	16%	12%	21%	22%	18%	16%	29%	32%	37%	28%	31%	28%	43%	31%	29%	40%	22%	21%
Net Monetary Position (Avg)	-8%		-52%		-24%		-66%		-14%		14%		-31%		-4%		-8%		-15%	

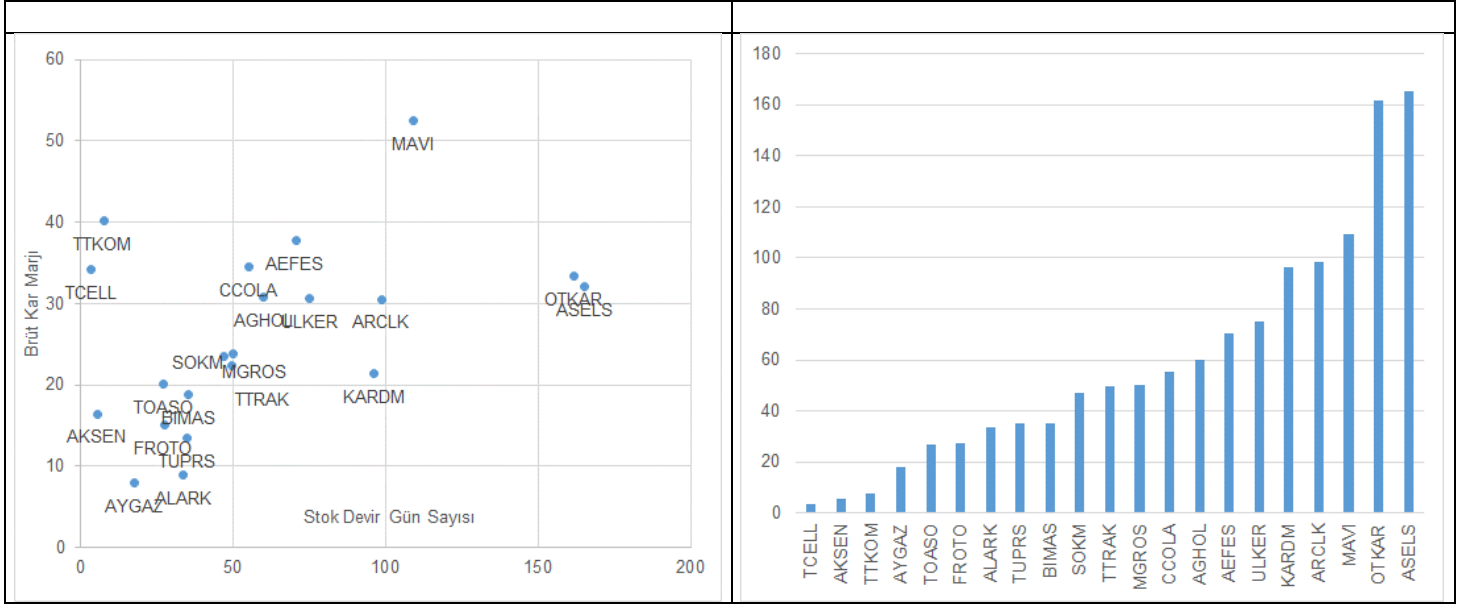
Source: Rasyonet, YKY Research (*) EREGL, PETKM, PGSUS, TAVHL, THYAO are not included because these companies would not implement IAS 29 as their functional currency is not TL, but either USD or EUR

○ Inventory Turnover

Companies that turn their inventories into income in a shorter period are expected to post relatively limited monetary gains whereas the erosion in the their gross margin after the restatement would also be relatively lower. This is because, the lower the days in inventories, the closer the carrying values of inventories to their market values. In the opposite case, companies that sell their stocks for extended periods are expected to report a higher monetary gain after adjustment but also a lower gross profitability.

We expect that the companies whose gross profit margins will decrease the most in the adjusted financial statements compared to before the correction are ASELS, OTKAR, ARCLK, MAVI and KRDMD whereas the erosion in the headline gross profitability of TOASO, FROTO, TUPRS, BIMAS and SOKM would likely to be relatively lower than the rest.

Inventory Turnover (Days) of Companies Under Our Coverage (*)



Source: Rasyonet, YKY Research (*) EREGL, PETKM, PGSUS, TAVHL, THYAO are not included because these companies would not implement IAS 29 as their functional currency is not TL, but either USD or EUR

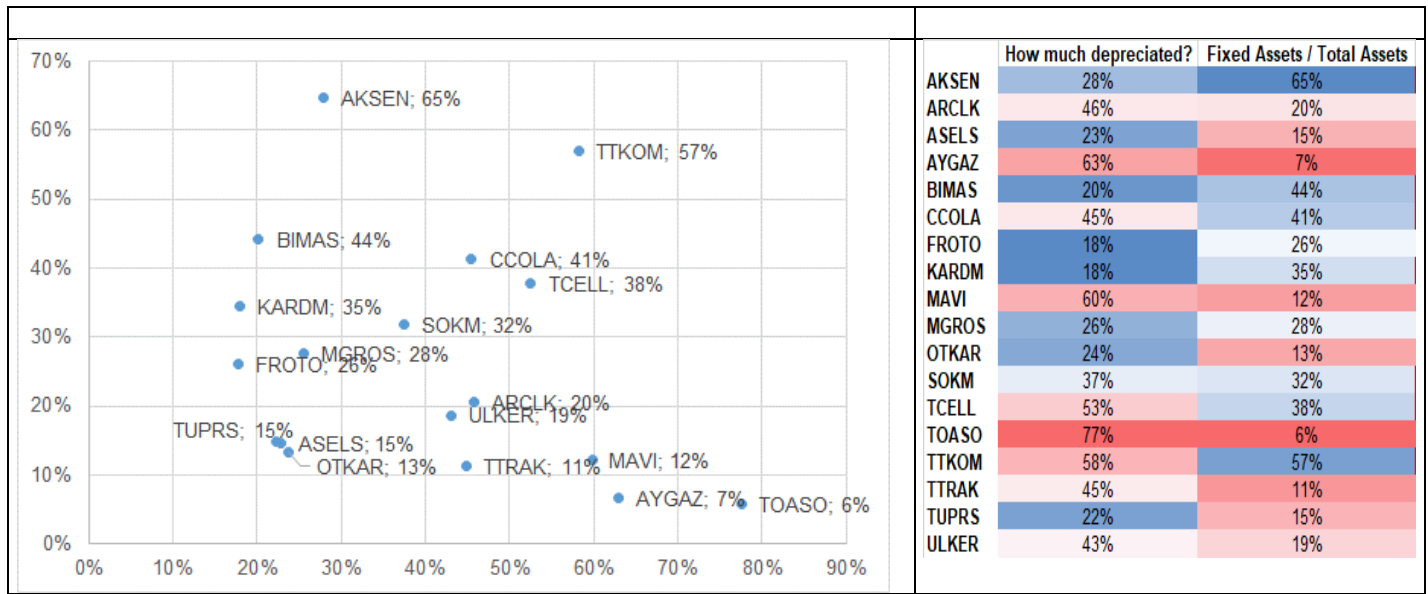
○ Level of undepreciated fixed assets

Fixed Assets are most of the times the largest non-monetary item that influences the outcome of indexation the most. Therefore, the older and larger a company's undepreciated fixed assets are and the more these assets are financed by external sources, the greater the monetary gain that company will recognize. Yet, it should be noted that since the last inflation adjustment was made in 2004, the indexation date can go back to 2004 at most.

Meanwhile, "accumulated depreciations", which are non-monetary liabilities, will also be indexed, depreciated assets will not have an inflation adjustment effect. However, since companies will recalculate depreciation and amortization based on indexed values, we expect depreciation expenses of those companies with a high proportion of fixed assets should increase and reduce the profitability in the income statement.

Based on our analysis, focusing only on property, plant, equipment (i.e. no intangibles and/or right of use asset), we would expect AKSEN, BIMAS, SOKM, KARDM, CCOLA to post relatively larger monetary gains thanks to higher stake of fixed assets in their total assets and that lower portion of their fixed assets have been depreciated. These companies' would also recognize higher depreciation expenses than they would have if there was no re-statement. On the other hand, TOASO, AYGAZ, TTRAK, MAVI and OTKAR will recognize relatively weaker monetary gains then the rest.

Fixed Assets % of Total Assets of Companies Under Our Coverage



Source: Rasyonet, YKY Research (*) EREGL, PETKM, PGSUS, TAVHL, THYAO are not included because these companies would not implement IAS 29 as their functional currency is not TL, but either USD or EUR

○ Checking recent past to assess the potential impact.

In our effort to understand the potential impact of IAS29 and how companies under our coverage will relatively be impacted, we find it useful to check their historical financials after hyperinflation has started to emerge, say end-2021.

Our assumption is that those companies whose margins or accounting based return metrics have deviated the most from historical trends after hyperinflation kicked off are also the most likely candidates that will be impacted from inflation accounting the most. While this is a loose assumption, factoring out company specific events that might have influence such changes in the financials, it is still a reasonable approach at aggregate level in ranking companies, in our view.

We checked three accounting based returns, namely ROE, ROIC and Asset Turnover since 2017, based fully on headline accounting numbers with no additional assumption. This is because the denominator of all these returns are balance sheet items (equity, invested capital, assets), or stock data while their numerators are flow data, we are expecting to see an expansion in those companies' returns which are likely to recognize greater monetary gains after IAS29. In order to do this, we indexed the changes to 2017 and calculate how each metric evolve in the last three years compared to previous three years.

Likely candidates to be effected the most from IAS 29 based on latest trends in financials

Asset Turnover								ROE								ROIC							
	2017	2018	2019	2020	2021	2022	2023		2017	2018	2019	2020	2021	2022	2023		2017/1	2018/1	2019/1	2020/1	2021/1	2022/1	2023/0
AEFES	100	-5	438	309	311	535	932	AEFES	100	-6	544	406	468	941	1.713	AEFES	100	-6	482	343	365	673	####
CCOLA	100	103	312	340	463	444	570	THYAO	100	428	363	-382	407	964	948	THYAO	100	447	358	-334	347	####	####
ALARK	100	-71	129	229	253	823	473	CCOLA	100	111	303	320	446	492	650	TTRAK	100	64	33	195	294	496	747
TTRAK	100	66	29	182	221	265	424	TCELL	100	104	147	168	181	338	399	CCOLA	100	116	321	349	484	491	686
TOASO	100	96	114	114	160	276	350	ALARK	100	-83	153	234	241	709	384	ALARK	100	-75	134	228	267	927	524
MAVI	100	87	59	2	149	274	302	TTRAK	100	78	32	162	186	267	351	TOASO	100	98	114	118	187	413	492
AYGAZ	100	37	43	-4	83	311	270	AYGAZ	100	41	55	-5	133	505	323	MGROS	100	-142	-58	-53	62	293	372
TUPRS	100	82	9	-41	40	261	262	FROTO	100	106	107	192	253	313	297	AYGAZ	100	38	48	-4	107	449	341
TCELL	100	83	118	145	142	215	244	TOASO	100	99	97	113	175	305	290	TUPRS	100	87	9	-40	50	347	291
MGROS	100	-135	-58	-46	38	170	219	PGSUS	100	60	118	-142	-137	263	227	TCELL	100	87	120	141	137	217	259
FROTO	100	91	91	149	203	196	196	MGROS	100	-167	-199	-533	416	280	201	OTKAR	100	126	192	278	436	294	254
PGSUS	100	58	97	-101	-69	127	147	TUPRS	100	102	10	-52	60	276	198	MAVI	100	83	47	2	130	218	226
AKSEN	100	5	57	63	158	212	143	MAVI	100	71	55	2	124	179	175	FROTO	100	104	109	169	221	210	205
TTKOM	100	-100	149	177	282	143	141	OTKAR	100	175	175	216	238	185	143	TTKOM	100	-110	161	189	285	155	165
ASELS	100	103	105	108	132	144	137	ARCLK	100	84	78	188	148	147	141	ASELS	100	100	103	114	146	167	161
OTKAR	100	145	248	330	414	260	131	BIMAS	100	101	82	124	110	169	123	PGSUS	100	57	97	-100	-68	128	144
BIMAS	100	107	63	90	76	122	103	ULKER	100	113	110	95	-43	-47	121	KARDM	100	269	21	17	771	263	119
TAVHL	100	139	182	-134	21	47	92	ASELS	100	93	89	88	106	120	118	ARCLK	100	79	67	173	130	120	109
ENKAI	100	47	95	89	70	15	91	TAVHL	100	132	166	-126	20	47	92	ENKAI	100	47	94	90	73	17	96
KARDM	100	267	23	15	654	205	90	ENKAI	100	46	90	85	69	16	90	AKSEN	100	4	46	45	113	137	89
ARCLK	100	76	64	160	111	86	72	TTKOM	100	-94	104	108	158	98	89	BIMAS	100	100	51	73	62	106	85
ULKER	100	127	145	126	-40	-20	70	KARDM	100	251	18	15	608	187	84	TAVHL	100	133	167	-130	18	39	78
PETKM	100	37	34	31	110	76	32	PETKM	100	48	44	43	125	92	42	ULKER	100	86	117	107	-26	-18	61
EREGL	100	102	50	40	129	78	-2	AKSEN	100	2	25	20	48	57	36	PETKM	100	35	32	30	102	99	40
								EREGL	100	103	50	40	128	79	-2	EREGL	100	105	51	41	129	80	-2

In all of these three metrics, the denominator is a balance sheet item which are followed with their historical values. Thus at times of hyperinflation, their accounting values might greatly vary from market values while the impact should be relatively limited on flow data (income). Thus, an expansion might be associated with inflationary dynamics if the deviation from pre-2021 level is significant.

Rather than checking the absolute numbers, we indexed all years' data to 2017 and then, rank the companies depending on how far they are from starting point.

Consequently, one might expect those companies at the top to recognize larger monetary gains after IAS29 adjustment.

Although such rough calculation naturally inherits risk of overlooking other more influencing factors, we believe it still provides an idea, at least from a relative perspective within companies.

Accordingly, based fully on headline accounting numbers, among companies under our coverage, we would expect AEFES, CCOLA, ALARK, TTRAK, TOASO, MGROS and MAVI as the most likely candidates in our coverage whose restated values will deviate the most from the current ones after IAS29.

Source: Rasyonet, YKY Research (*)these companies would not implement IAS 29 as their functional currency is not TL, but either USD or EUR

Banks – Visible Outlook & Attractive Multiples

We expect CPI to decline to the 40%-45% range at YE24. We foresee the Central Bank keeping the policy rate stable at 45% until September and commence an easing cycle as of 4Q24. We project gradual NIM expansion in 2024 thanks to core-spread expansion. We foresee banks' TL loan-deposit spreads significantly recovering post 1Q24. We estimate TL deposit costs hovering around 45%-50% levels until September. Banks' TL duration mismatches have visibly declined in 2023 as banks have preferred to lend at short-terms amid regulatory and macroeconomic uncertainties, especially during 1H23. Hence, private banks currently prefer to lend at current high interest rate levels which should support margins going forward.

We observed 54% total loan growth in 2023. TL loans expanded by 54% while FC loans declined -3% in \$ terms. TL loan growth was buoyant mainly on the commercial side (+45%) and credit cards (+160%), while consumer lending was relatively weaker with growth of 40%. Consumer lending has slowed sharply since mid-2023 as the Central Bank introduced monetary tightening to control domestic demand. We foresee TL lending growth of c.35% in 2024, below the average CPI of c.55%. We expect TL loan growth to be driven by TL commercial loans and credit cards. We pencil in c.70% fee growth and c.60% operating expense growth.

For asset quality, we anticipate that banks have prudent provisioning buffers; including both loan loss provisions and free provisions. Hence, we pencil in a flattish cost of risk while expecting NPL inflows to accelerate due to the anticipated economic slowdown. Note that banks have already booked large provisions between 2018 and 2023, and we expect no major deterioration in provisions and cost of risks. Banks may release some of the excess provisions during 1Q24 to mitigate quarterly volatility in earnings.

With this report, we fine-tune our estimates based on our latest macro scenario. We now foresee 17% EPS expansion for our Tier-1 private banks coverage in 2024 (vs. +20% y/y growth in 2023E). Based on our forecasts, 3 Tier-1 private banks under our coverage trade at 2024E P/B and P/E of 0.85x and 3x, respectively, with an expected 2023 ROE of 32% (vs. 37% in 2023E). We continue to favor private names, including **AKBNK**, **GARAN**, **ISCTR**, and **TSKB**, all of which we have a **BUY** rating on. The Bloomberg consensus 12M forward P/B and P/E estimates for the XBANK are at 0.6x and 2.4x, respectively. The P/B multiple indicates a c.30% discount to MSCI EM banks.

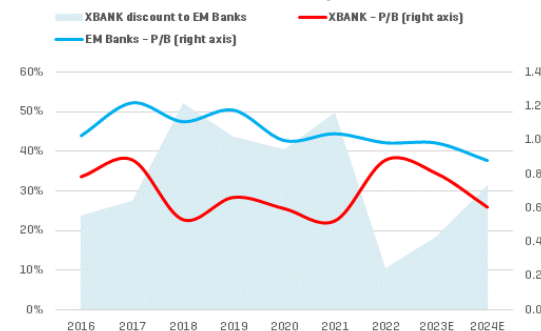
Catalysts:

- Gradual opening of swap lines which could accelerate foreign flows
- Turkey's sovereign credit outlook & rating upgrades
- Depending on forward CPI expectations, if policy rate cuts are executed as of 4Q24 (in line with market expectations), banks' earnings will soar in 2025

Risks:

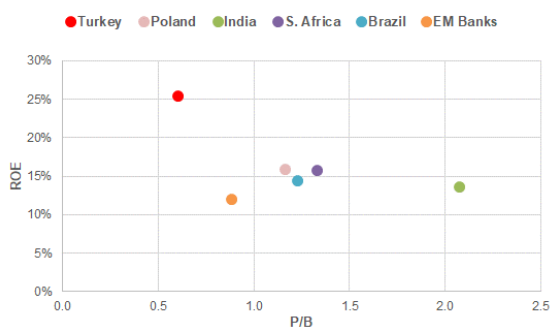
- Unorthodox policies
- Earlier-than-expected rate cuts
- Political/geopolitical risks
- New adverse regulations which could pressurize banks' earnings

Exhibit 1: XBANK vs EM Banks (12m fwd P/B discount)



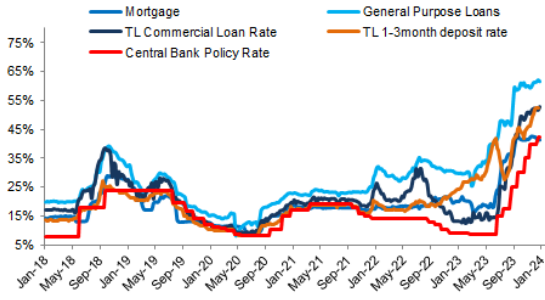
Source: Bloomberg

Exhibit 2: XBANK vs Selected EM Banks (2024E)



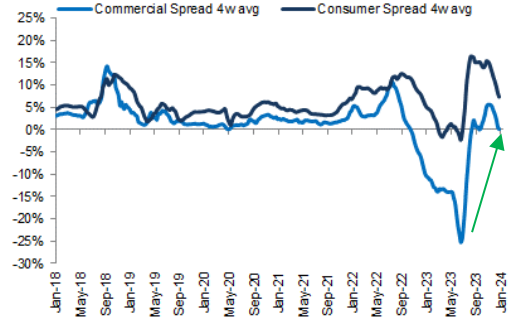
Source: Bloomberg

Exhibit 3: Banking Sector TL Loan & Deposit Rates



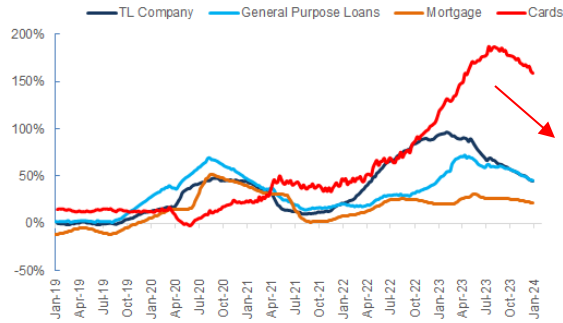
Source: Central Bank

Exhibit 4: Banking Sector TL Loan-Deposit Spreads (last 4 week avg)



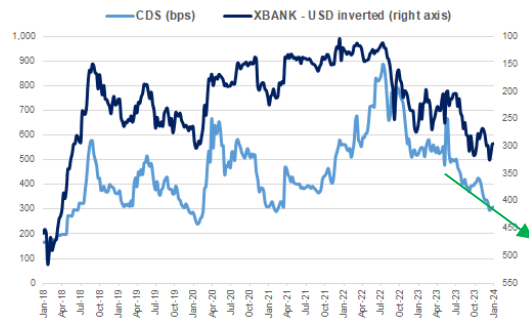
Source: Central Bank

Exhibit 5: TL Loan Growth



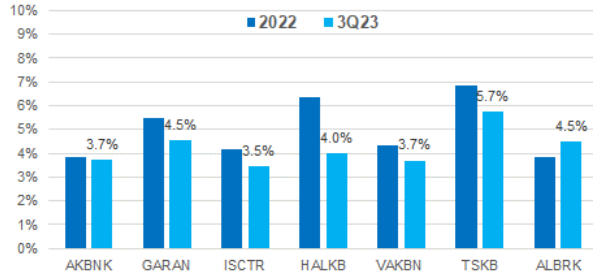
Source: Central Bank

Exhibit 6: Türkiye CDS vs Banking Sector Index (in \$)



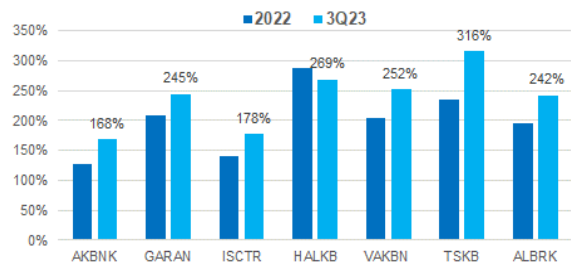
Source: Bloomberg

Exhibit 7: Cash Coverage Ratio



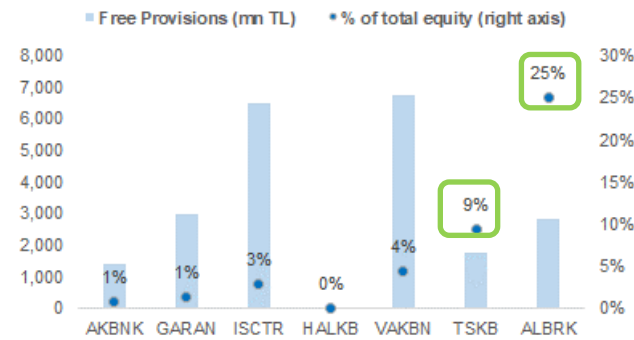
Source: YKY Research, Company Financials

Exhibit 8: Total NPL Coverage Ratio



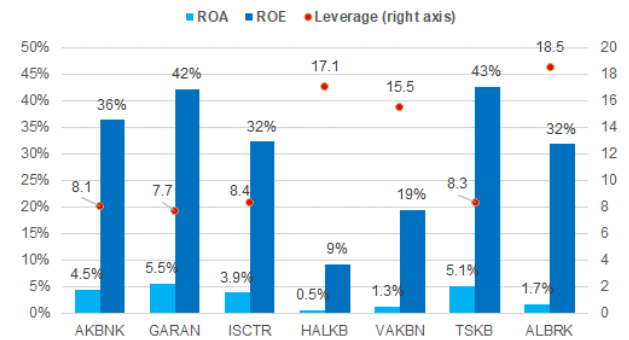
Source: YKY Research, Company Financials

Exhibit 9: Free Provisions



Source: YKY Research, Company Financials

Exhibit 10: ROE & ROA & Leverage (2023E)



Source: YKY Research, Company Financials

Turkish banks, insurance & pension companies and NPL management companies will not implement inflation accounting in 2024. If inflation accounting had been implemented, banks' net profits and ROEs would decline substantially while their total equity would slightly rise. Hence, P/E's would increase to c.5x-6x (vs 3x currently) while their P/Bs would slightly decline. The government aimed to maximize tax revenues from these institutions by exempting them from inflation accounting in 2024. **These institutions will implement inflation accounting starting from 1 January 2025.**

Table 1: Impact of Inflation Accounting on Banks

31 December 2022 (bn TL)	AKBNK		GARAN		ISCTR		TSKB	
	Incl. Inflation Accounting	Excl. Inflation Accounting	Incl. Inflation Accounting	Excl. Inflation Accounting	Incl. Inflation Accounting	Excl. Inflation Accounting	Incl. Inflation Accounting	Excl. Inflation Accounting
Net Profit	21	60	15	59	48	62	0.4	4
Equity	157	154	162	153	291	191	14	13
ROE	14%	52%	10%	50%	18%	44%	3%	41%

Table 2: YKY Banking Estimates

Solo Financials - mn TL	AKBNK	GARAN	ISCTR	HALKB	VAKBN	TSKB	ALBRK	Tier-1 Average	Tier-1 Private Avg (AKBNK, GARAN, ISCTR)
Current Share Price	43.26	67.80	25.96	12.95	14.79	7.51	3.98		
Target Price	58.00	89.00	34.00	15.00	18.00	11.00	4.90		
Upside	34%	31%	31%	16%	22%	46%	23%		
Rating	BUY	BUY	BUY	HOLD	HOLD	BUY	HOLD		
Net Profit (bank only)									
2021	12,126	13,514	13,468	1,508	4,175	1,089	104		
2022	60,024	58,509	61,537	14,754	24,017	4,055	1,365		
2023E	64,929	82,389	69,418	9,954	26,351	7,228	3,181		
2024E	74,487	94,530	84,341	11,226	30,187	9,414	3,325		
2025E	110,752	152,244	130,199	22,876	45,307	11,238	4,931		
YKY YoY Net Profit growth									
2021	93%	117%	98%	-42%	-17%	49%	-59%	66%	102%
2022	395%	333%	357%	879%	475%	272%	1208%	389%	360%
2023E	8%	41%	13%	-33%	10%	78%	133%	16%	20%
2024E	15%	15%	21%	13%	15%	30%	5%	16%	17%
2025E	49%	61%	54%	104%	50%	19%	48%	57%	55%
P/E (x)									
2021	2.5	2.9	1.9	7.9	3.5	3.7	23.0	3.8	2.4
2022	0.9	1.3	1.0	2.1	1.7	1.8	3.1	1.4	1.1
2023E	1.9	2.0	2.4	8.6	4.2	2.2	2.7	3.8	2.1
2024E	3.0	3.0	3.1	8.3	4.9	2.2	3.0	4.5	3.0
2025E	2.0	1.9	2.0	4.1	3.2	1.9	2.0	2.6	2.0
P/B (x)									
2021	0.4	0.5	0.3	0.3	0.3	0.6	0.5	0.3	0.4
2022	0.4	0.5	0.3	0.4	0.4	0.6	0.5	0.4	0.4
2023E	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
2024E	0.8	0.9	0.8	0.7	0.8	0.7	0.7	0.8	0.9
2025E	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6
Dividend Yield									
2021	0%	0%	0%	0%	0%	0%	0%	0%	0%
2022	1%	0%	1%	0%	0%	0%	0%	0%	1%
2023	4%	3%	4%	0%	0%	0%	0%	2%	4%
2024E	4%	4%	4%	0%	0%	3%	0%	3%	4%
2025E	5%	5%	6%	0%	0%	4%	0%	3%	5%
ROE									
2020	11%	11%	11%	7%	13%	12%	6%	10%	11%
2021	17%	19%	17%	3%	8%	17%	2%	13%	18%
2022	52%	50%	44%	22%	30%	41%	21%	40%	49%
2023E	36%	42%	32%	9%	19%	43%	32%	28%	37%
2024E	32%	34%	31%	9%	17%	37%	25%	24%	32%
2025E	35%	39%	35%	16%	21%	32%	28%	29%	36%

Source: YKY Research

AKBANK

Robust capitalization & ROE generation

We have revised our 12M target share price for Akbank upwards to TL58/sh. (TL45 prev.) and maintain our BUY recommendation. The upward revision to our TP was driven by better-than-expected outlook for 2025 and onwards. Our TP offers a potential return of 34%. The stock is currently trading at 2024E 0.8x P/B and 3x P/E based on our estimates. We foresee a 4% dividend yield from 2023 earnings. Akbank has been a member of our Model Portfolio since Sept '22 and provided a 58% relative return vs. the XU100.

- TL spreads to recover gradually in 2024 & CPI-linker contribution to decline:** We foresee TL loan-deposit spreads significantly recovering post 1Q24 yet lower CPI-linker contribution and higher swap costs should limit NIM expansion.
- Robust capital ratios & dividend pay-out capacity:** Akbank operates with robust capital ratios of 19.7% and 16.5% without BRSA forbearances. We pencil in a 15% dividend pay-out from 2023 earnings, translating to a 4% dividend yield.
- Proactive reserve accumulation:** Akbank built up significant reserves between 2018-2023 through i) hiking the coverage ratios of its total loan portfolio, and ii) booking free provisions. The total NPL coverage ratio reached 168% (vs. 127% at YE22). Akbank also has free provision stock of TL1.4bn. Cash coverage stands at 3.7%.
- Attractive multiples:** Akbank trades at 2024E 0.8x P/B and 3x P/E, based on our estimates, with an expected 2024 ROE of 32% (36% in 2023E). Based on our average 29% cost of equity assumption, Akbank's 2024E P/B could reach 1x-1.1x, in our view.
- Main risks:** i) Weaker-than-anticipated economic growth could lead to asset quality deterioration beyond our expectations, ii) Regulatory pressure on profitability

Bank Only Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	60,024	395%	64,929	8%	74,487	15%	110,752	49%
Book Value	153,600	102%	203,493	32%	268,249	32%	367,837	37%
P/E (x)	0.9		1.9		3.0		2.0	
P/BV (x)	0.4		0.6		0.8		0.6	
EPS (TL)	11.54		12.49		14.32		21.30	
Div. Yield (*)	3.2%		9.3%		4.3%		5.0%	
ROAE	52.3%		36.4%		31.6%		34.8%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL58.00
Upside (Downside)	34%

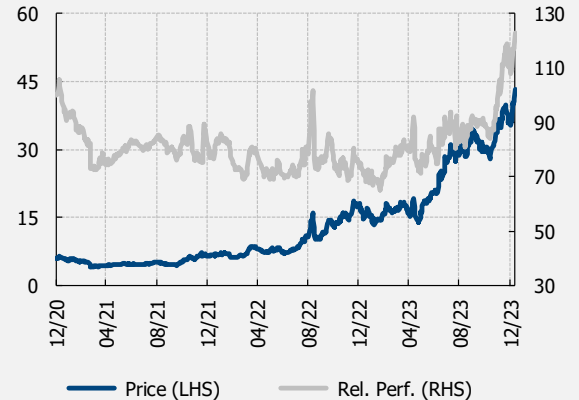
Share Data

Ticker	AKBNK.TI / AKBNK.IS
Close Price	TL43.26
Current MCap. (TL/US\$ mn)	224,952 / 7,494
Number of Shares (mn)	5200
Free Float	52%
3m Avg. Daily Turnover (TL/US\$ mn)	3,318.49 / 114.77

Trading Range (High / Low) (TL)

1-month	43.26 / 35.34
1-year	43.26 / 13.34
Ytd	43.26 / 35.34

Performance (TL)	Absolute	Relative
1-month	16%	13%
3-month	31%	36%
1-year	186%	74%
Ytd	18%	11%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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TL mln	2021	2022	2023E	2024E	2025E
Income Statement					
Net Interest Income (NII)	22,835	76,872	63,966	120,817	156,789
Net FX & derivatives income/(loss)	5,788	14,208	33,313	293	7,616
FX & Derivatives adjusted NII	28,623	91,080	97,279	121,109	164,405
Trading income	661	852	3,100	0	0
Net fees and commissions	5,233	10,316	30,900	54,645	85,913
Other operating income	2,244	3,736	4,069	4,819	5,845
Total banking income	36,761	105,982	135,348	180,573	256,163
Operating expenses	9,326	19,138	44,593	70,375	100,083
Pre-provision profit/(loss)	27,435	86,844	90,755	110,198	156,081
Provisions expenses	12,931	10,690	15,713	16,725	16,623
Operating Income/(loss)	14,503	76,154	75,042	93,473	139,458
Dividend income	1,563	3,106	7,610	12,937	18,758
Pre-tax profit	16,066	79,260	82,652	106,410	158,216
Tax	3,940	19,236	17,723	31,923	47,465
Net income	12,126	60,024	64,929	74,487	110,752

Balance Sheet					
Cash and equivalents	143,362	160,592	334,352	451,444	592,701
Securities	153,074	266,161	452,472	506,769	567,581
Loans (net)	334,733	538,837	852,771	1,218,959	1,669,755
Performing Loans	335,603	543,443	862,620	1,220,242	1,671,275
Non-performing Loans (gross)	17,769	16,907	17,908	25,650	30,418
Loan Loss Provisions	18,639	21,513	27,758	26,932	31,938
Total assets	708,911	1,075,186	1,817,608	2,454,149	3,222,055
Deposits	413,261	679,325	1,147,932	1,508,843	1,959,109
Money market	61,007	54,030	81,045	113,463	147,502
Securities issued	29,542	22,440	23,786	26,640	29,837
Borrowings	53,497	64,397	83,716	108,831	141,480
Subordinated loans	18,726	16,800	26,584	37,928	45,514
Shareholders' equity	75,955	153,600	203,493	268,249	367,837

Key ratios					
ROE	17.5%	52.3%	36.4%	31.6%	34.8%
ROA	2.1%	6.7%	4.5%	3.5%	3.9%
NIM	4.7%	9.5%	4.9%	6.4%	6.3%
Swap Adjusted NIM	3.3%	8.7%	4.7%	5.1%	5.7%
Loan-deposit spread	6.0%	7.5%	3.1%	8.3%	10.0%
TRY Loan Yield	14.2%	17.9%	20.7%	38.0%	32.3%
TRY Deposit Cost	12.9%	13.9%	22.7%	35.0%	26.0%
TRY Spread	1.3%	4.0%	-2.0%	3.0%	6.3%
FC Loan Yield	5.3%	6.1%	8.3%	9.3%	9.9%
FC Deposit Cost	0.5%	1.1%	1.5%	1.9%	2.3%
FC Spread	4.9%	5.0%	6.8%	7.4%	7.6%
Yield on TRY Securities	17.4%	45.0%	34.9%	36.7%	22.9%
Yield on FC Securities	4.1%	5.4%	5.9%	6.3%	6.5%
Cost-to-income	24%	18%	31%	36%	36%
Cost-to-assets	1.3%	1.8%	2.5%	2.9%	3.1%
Effective tax rate	24.5%	24.3%	21.4%	30.0%	30.0%
NPL ratio	5.0%	3.0%	2.0%	2.1%	1.8%
Cost of risk (net)	1.1%	0.9%	1.7%	1.2%	0.8%
Leverage (x)	9.3	7.0	8.9	9.1	8.8
Free equity/equity	69%	73%	67%	62%	57%
Loans-to-deposits	81%	80%	75%	81%	85%
Loans-to-assets	47%	51%	47%	50%	52%
Securities-to-assets	22%	25%	25%	21%	18%

Source: YKY research estimates

	2021	2022	2023E	2024E	2025E
yoy growth					
17%	237%	-17%	89%	30%	
nm	145%	134%	-99%	2501%	
55%	218%	7%	24%	36%	
64%	29%	264%	nm	nm	
35%	97%	200%	77%	57%	
63%	66%	9%	18%	21%	
52%	188%	28%	33%	42%	
21%	105%	133%	58%	42%	
67%	217%	5%	21%	42%	
36%	-17%	47%	6%	-1%	
108%	425%	-1%	25%	49%	
63%	99%	145%	70%	45%	
102%	393%	4%	29%	49%	
135%	388%	-8%	80%	49%	
93%	395%	8%	15%	49%	

128%	12%	108%	35%	31%
47%	74%	70%	12%	12%
41%	61%	58%	43%	37%
42%	62%	59%	41%	37%
3%	-5%	6%	43%	19%
13%	15%	29%	-3%	19%
59%	52%	69%	35%	31%
54%	64%	69%	31%	30%
221%	-11%	50%	40%	30%
54%	-24%	6%	12%	12%
48%	20%	30%	30%	30%
179%	-10%	58%	43%	20%
21%	102%	32%	32%	37%

yoy Δ					
2021	2022	2023E	2024E	2025E	
6.8%	34.8%	-15.9%	-4.8%	3.2%	
0.5%	4.6%	-2.2%	-1.0%	0.4%	
-0.5%	4.8%	-4.6%	1.4%	-0.1%	
-0.9%	5.5%	-4.1%	0.5%	0.5%	
-0.6%	1.6%	-4.4%	5.2%	1.8%	
2.3%	3.7%	2.8%	17.3%	-5.8%	
5.5%	0.9%	8.8%	12.3%	-9.0%	
-3.1%	2.8%	-6.0%	5.0%	3.3%	
-0.7%	0.7%	2.2%	1.0%	0.6%	
-0.3%	0.7%	0.4%	0.4%	0.4%	
-0.5%	0.1%	1.8%	0.6%	0.2%	
4.1%	27.6%	-10.1%	1.8%	-13.8%	
0.2%	1.2%	0.5%	0.5%	0.2%	
-6.3%	-6.8%	13.6%	5.2%	0.0%	
-0.4%	0.5%	0.7%	0.4%	0.2%	
3.4%	-0.3%	-2.8%	8.6%	0.0%	
-1.8%	-2.0%	-1.0%	0.0%	-0.3%	
-1.4%	-0.2%	0.8%	-0.5%	-0.4%	
2.2	-2.3	1.9	0.2	-0.4	
-4.1%	3.7%	-5.7%	-5.0%	-4.9%	
-6.7%	-1.2%	-4.9%	5.7%	4.4%	
-5.6%	3.2%	-3.1%	2.3%	2.1%	
-1.7%	3.2%	0.1%	-4.2%	-3.0%	

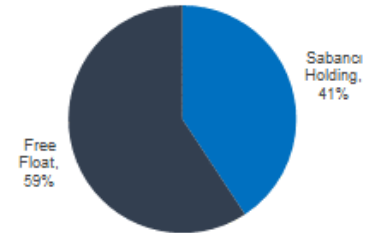
Company Description

Akbank attracts deposits and offers retail and corporate banking services. The Group offers consumer credits, credit cards, wealth management, health and life insurance, pension plans, risk management, project financing, foreign trade and cash management services through its branches in Turkey and overseas.

Catalysts: i) Better than expected GDP growth could support asset quality, ii) Improvement in forward CPI expectations

Risks: i) Weaker-than-anticipated economic growth could lead to asset quality deterioration beyond our expectations ii) Regulatory pressure on profitability

Ownership Structure



ALBARAKA

Fair valuation

We fine-tune our estimates and revise upwards our 12M target share for Albaraka to TL4.9/sh. (TL4.7/sh prev.) and reiterate our HOLD recommendation. Our 12M target price indicates 23% upside. The stock is currently trading at 0.7x P/B and 3x P/E based on our 2024 estimates, which we consider fair at an expected 2024E ROE of 25%.

- Asset quality buffers substantially strengthened in 2023:** The NPL coverage ratio reached 242%, while the bank has a TL2.8bn free provision buffer, of which TL1bn was booked during the first nine months of 2023. Hence, the total free provision stock has reached c.25% of total equity, which should provide a significant cushion going forward. The share of stage 2 loans in total is at 9.1%.
- CET-1 ratio still lags private banks:** Albaraka's CAR and Core Tier-1 ratios without BRSA forbearances are at c.15% and 9%, respectively, as of 9M23. We incorporate no dividend pay-out from 2023 earnings, given the weak CET-1 ratio. If we adjust for free provisions, capital ratios would be c.250bps higher.
- ROE level substantially improved but does not justify rerating:** We foresee an ROE of 25% in 2024 (vs. 32% in 2023E). We consider 2024 multiples fair.
- Main risks:** i) Weaker-than-anticipated economic growth could lead to asset quality deterioration beyond our expectations, ii) regulatory actions, iii) earlier-than-expected rate cuts.

Bank Only Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	1,365	n.m.	3,181	133%	3,325	5%	4,931	48%
Book Value	8,119	75%	11,878	46%	15,203	28%	20,133	32%
P/E (x)	3.1		2.7		3.0		2.0	
P/BV (x)	0.5		0.7		0.7		0.5	
EPS (TL)	0.55		1.27		1.33		1.97	
Div. Yield (*)	0.0%		0.0%		0.0%		0.0%	
ROAE	21.4%		31.8%		24.6%		27.9%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL4.90
Upside (Downside)	23%

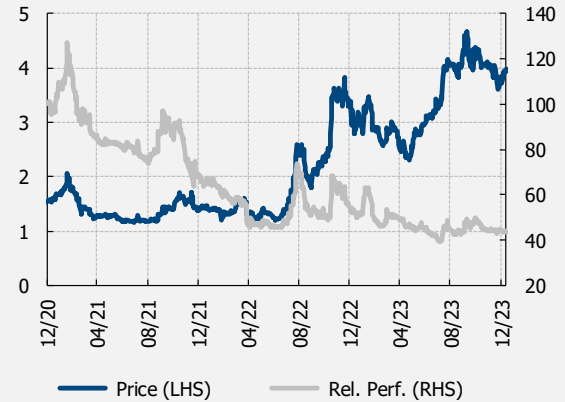
Share Data

Ticker	ALBRK.TI / ALBRK.IS
Close Price	TL3.98
Current MCap. (TL/US\$ mn)	9,950 / 331
Number of Shares (mn)	2500
Free Float	38%
3m Avg. Daily Turnover (TL/US\$ mn)	133.25 / 4.66

Trading Range (High / Low) (TL)

1-month	4.04 / 3.60
1-year	4.66 / 2.31
Ytd	3.98 / 3.72

Performance (TL)	Absolute	Relative
1-month	1%	-3%
3-month	-12%	-10%
1-year	35%	-18%
Ytd	4%	-3%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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TL mln	2021	2022	2023E	2024E	2025E
Income Statement					
Net Interest Income (NII)	1,693	5,382	6,701	9,834	11,293
Net FX&derivatives income/(loss)	209	1,009	4,165	1,600	1,600
FX & Derivatives adjusted NII	1,903	6,391	10,866	11,434	12,893
Trading income	-73	1,872	1,006	0	0
Net fees and commissions	406	645	2,145	3,630	5,379
Other operating income	1,143	1,658	1,446	1,858	2,694
Total banking income	3,378	10,565	15,464	16,921	20,966
Operating expenses	1,462	2,234	4,598	7,604	10,931
Pre-provision profit/(loss)	1,916	8,331	10,867	9,317	10,035
Provisions expenses	1,835	6,017	6,005	4,568	2,992
Operating Income/(loss)	81	2,314	4,862	4,749	7,044
Dividend income	1	1	0	0	0
Pre-tax profit	81	2,315	4,862	4,749	7,044
Tax	-23	950	1,681	1,425	2,113
Net income	104	1,365	3,181	3,325	4,931

Balance Sheet					
Cash and equivalents	31,795	32,205	58,014	78,167	100,673
Securities	17,238	35,387	49,539	59,446	71,335
Loans (net)	56,116	71,716	103,036	144,562	187,497
Performing Loans	55,522	73,128	105,457	147,210	188,553
Non-performing Loans (gross)	3,783	1,468	1,863	2,942	3,520
Loan Loss Provisions	3,189	2,880	4,284	5,590	4,577
Total assets	108,955	146,340	224,164	301,864	388,779
Deposits	91,237	112,676	152,592	203,496	242,185
Money market	1	7,818	0	0	0
Securities issued	0	0	0	0	0
Borrowings	6,259	4,412	7,942	8,339	8,756
Subordinated loans	3,119	4,694	8,996	12,834	15,401
Shareholders' equity	4,627	8,119	11,878	15,203	20,133

Key ratios	2021	2022	2023E	2024E	2025E
ROAE	2.4%	21.4%	31.8%	24.6%	27.9%
ROAA	0.1%	1.1%	1.7%	1.3%	1.4%
NIM	2.1%	4.3%	3.8%	3.9%	3.5%
Adjusted NIM	2.3%	6.6%	6.8%	4.6%	4.0%
Loan-deposit spread	5.7%	8.1%	7.4%	7.8%	6.6%
TRY Loan Yield	13.2%	19.3%	18.1%	31.5%	26.0%
TRY Deposit Cost	9.2%	11.6%	11.9%	24.8%	21.0%
TRY Spread	4.1%	7.7%	6.2%	6.8%	5.0%
FC Loan Yield	4.2%	4.3%	5.8%	6.6%	7.2%
FC Deposit Cost	0.6%	0.4%	0.3%	0.6%	1.0%
FC Spread	3.6%	3.9%	5.4%	5.9%	6.1%
Yield on TRY Securities	11.2%	36.5%	15.7%	26.5%	21.0%
Yield on FC Securities	3.7%	5.4%	5.4%	6.3%	7.1%
Cost-to-income	43%	21%	30%	45%	52%
Effective tax rate	-28.2%	41.0%	34.6%	30.0%	30.0%
NPL ratio	6.4%	2.0%	1.7%	2.0%	1.8%
Cost of risk (net)	1.2%	4.0%	3.3%	2.2%	0.3%
Leverage (x)	23.5	18.0	18.9	19.9	19.3
Loans-to-deposits	61%	65%	69%	72%	78%
Loans-to-assets	51%	50%	47%	49%	48%
Securities-to-assets	16%	24%	22%	20%	18%

Source: YKY research estimates

	2021	2022	2023E	2024E	2025E
yoy growth					
-1%	218%	25%	47%	15%	
9%	382%	313%	-62%	0%	
0%	236%	70%	5%	13%	
nm	nm	-46%	nm	nm	
74%	59%	233%	69%	48%	
103%	45%	-13%	28%	45%	
22%	213%	46%	9%	24%	
16%	53%	106%	65%	44%	
27%	335%	30%	-14%	8%	
55%	228%	0%	-24%	-35%	
-75%	2769%	110%	-2%	48%	
nm	38%	nm	nm	nm	
-75%	2743%	110%	-2%	48%	
nm	nm	77%	-15%	48%	
-59%	1208%	133%	5%	48%	
91%	1%	80%	35%	29%	
76%	105%	40%	20%	20%	
40%	28%	44%	40%	30%	
39%	32%	44%	40%	28%	
85%	-61%	27%	58%	20%	
74%	-10%	49%	30%	-18%	
57%	34%	53%	35%	29%	
77%	23%	35%	33%	19%	
-100%	589024%	nm	nm	nm	
nm	nm	nm	nm	nm	
-14%	-30%	80%	5%	5%	
80%	50%	92%	43%	20%	
14%	75%	46%	28%	32%	

	2021	2022	2023E	2024E	2025E
yoy Δ					
-4.1%	19.0%	10.4%	-7.3%	3.4%	
-0.3%	1.0%	0.6%	-0.5%	0.2%	
-0.8%	2.2%	-0.5%	0.1%	-0.4%	
-1.1%	4.3%	0.2%	-2.2%	-0.6%	
-0.1%	2.4%	-0.6%	0.3%	-1.1%	
2.5%	6.1%	-1.2%	13.4%	-5.5%	
3.3%	2.4%	0.3%	12.9%	-3.8%	
-0.9%	3.7%	-1.5%	0.6%	-1.8%	
-0.9%	0.1%	1.5%	0.8%	0.6%	
0.1%	-0.2%	0.0%	0.3%	0.4%	
-1.0%	0.3%	1.5%	0.5%	0.2%	
4.3%	25.3%	-20.7%	10.8%	-5.5%	
0.2%	1.6%	0.1%	0.9%	0.8%	
-2.2%	-22.1%	8.6%	15.2%	7.2%	
-49.5%	69.2%	-6.5%	-4.6%	0.0%	
1.5%	-4.4%	-0.2%	0.2%	-0.1%	
-0.6%	2.8%	-0.7%	-1.1%	-1.9%	
6.4	-5.5	0.8	1.0	-0.5	
-16.7%	4.0%	4.2%	3.2%	5.5%	
-6.8%	-1.0%	-2.9%	1.7%	-0.3%	
1.7%	8.4%	-2.1%	-2.4%	-1.3%	

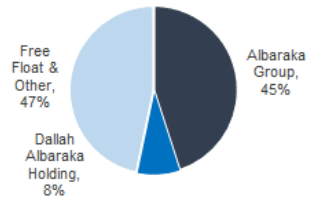
Company Description

Albaraka attracts deposits and offers retail and corporate banking services.

Catalysts: i) Better than expected GDP growth could support asset quality, ii) Improvement in forward CPI expectations

Risks: i) Weaker-than-anticipated economic growth could lead to asset quality deterioration beyond our expectations ii) Regulatory pressure on profitability

Ownership Structure



GARANTI

Superior ROE generation

We have fine-tuned our 12M target share price for Garanti to TL89/sh. (previously TL68) and reiterate our BUY recommendation. The upwards revision to our TP was driven by our higher-than-expected long-term ROE projection. Our 12M target price offers 31% return potential. The stock is currently trading at 0.9x P/B and 3x P/E based on our 2024 estimates.

- Prudent provisioning and buffers:** Garanti has prudently booked free provisions over the past few years, with total free provisions at TL3bn. Total and stage 3 coverage ratios are at prudent levels of 245% and 70%, respectively, thus much higher when compared to peers. The cash coverage ratio is at 4.5%. The share of stage 2 loans in total is at 13.7%, with a coverage of 21%.
- Comfortable capital ratios & dividend pay-out capacity:** Garanti operates with comfortable CAR and CET-1 ratios of 18.3% and 16.1% without BRSA forbearances. The bank's leverage ratio is also contained at 8x. We pencil in a 15% dividend pay-out from 2023 earnings, translating to a 4% dividend yield.
- Sustainable ROE & capitalization deserves higher P/B:** We project Garanti registering 34% ROE (vs. 42% in 2023E). Based on our average 29% cost of equity assumption for 2023, Garanti's 2024E P/B could reach 1.1x.
- Low free float:** BBVA's stake in Garanti is at 86% (vs. 49.8% pre-BBVA tender call), while free float declined to 14%, resulting in MSCI index exclusion during May '22.
- Main risks:** i) Weaker-than-anticipated economic growth could pressure asset quality beyond our estimates, ii) Regulatory pressure on profitability, iii) Potential share sale by BBVA to increase free float may pressurize the share in the short term.

Bank Only Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	58,509	348%	82,389	41%	94,530	15%	152,244	61%
Book Value	152,685	94%	239,077	57%	321,249	34%	459,315	43%
P/E (x)	1.3		2.0		3.0		1.9	
P/BV (x)	0.5		0.7		0.9		0.6	
EPS (TL)	13.93		19.62		22.51		36.25	
Div. Yield (*)	2.1%		7.1%		4.3%		5.0%	
ROAE	50.5%		42.1%		33.7%		39.0%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating

BUY

Target Price

TL89.00

Upside (Downside)

31%

Share Data

Ticker	GARAN.TI / GARAN.IS
Close Price	TL67.80
Current MCap. (TL/US\$ mn)	284,760 / 9,487
Number of Shares (mn)	4200
Free Float	14%
3m Avg. Daily Turnover (TL/US\$ mn)	1,910.89 / 66.21

Trading Range (High / Low) (TL)

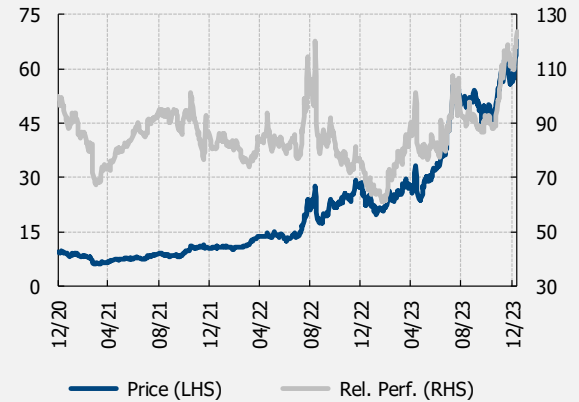
1-month	67.80 / 55.75
1-year	67.80 / 19.57
Ytd	67.80 / 56.50

Performance (TL)

Absolute

Relative

1-month	14%	11%
3-month	36%	40%
1-year	198%	80%
Ytd	16%	9%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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TL mln	2021	2022	2023E	2024E	2025E
Income Statement					
Net Interest Income (NII)	33,640	83,319	72,544	117,073	210,265
Net FX&derivatives Income/(loss)	1,176	9,630	27,737	6,220	-6,944
Trading Income	2,662	-1,103	1,809	0	0
Net fees and commissions	8,501	16,628	39,788	69,708	99,937
Other operating income	8,980	11,974	26,784	35,485	41,643
Total banking income	54,959	120,447	168,662	228,486	344,901
Operating expenses	12,673	22,909	47,743	75,457	110,055
Pre-provision profit/(loss)	42,286	97,538	120,919	153,029	234,846
Provisions expenses	27,019	27,310	36,216	39,272	48,219
Operating Income/(loss)	15,266	70,228	84,703	113,757	186,628
Dividend income	2,480	5,375	12,900	21,286	30,864
Pre-tax profit	17,746	75,603	97,603	135,043	217,492
Tax	4,232	17,094	15,214	40,513	65,248
Net income	13,514	58,509	82,389	94,530	152,244

Balance Sheet					
Cash and equivalents	167,274	161,000	397,331	527,313	703,562
Securities	93,072	187,992	263,188	284,243	306,982
Loans (net)	398,058	632,361	1,010,712	1,431,448	1,987,428
Performing Loans	408,783	651,788	1,038,312	1,452,269	2,005,835
Non-performing Loans (gross)	16,071	17,613	19,714	34,703	46,016
Loan Loss Provisions	26,796	37,039	47,314	55,524	64,423
Total assets	758,880	1,152,172	1,851,418	2,482,980	3,312,971
Deposits	513,240	790,664	1,374,722	1,872,282	2,356,237
Money market	9,630	16,321	28,561	31,418	34,559
Securities issued	21,843	12,873	9,011	10,362	11,917
Borrowings	36,813	35,006	43,758	61,261	85,765
Subordinated loans	9,997	14,024	22,125	30,000	36,000
Shareholders' equity	79,981	152,685	239,077	321,249	459,315

Key ratios					
ROAE	19.0%	50.3%	42.1%	33.7%	39.0%
ROAA	2.2%	6.1%	5.5%	4.4%	5.3%
NIM	6.4%	9.4%	5.2%	6.0%	8.0%
Swap Adjusted NIM	4.1%	8.3%	5.0%	5.5%	7.8%
Loan-deposit spread	7.0%	9.6%	5.9%	9.7%	11.9%
TRY Loan Yield	15.2%	18.3%	19.3%	37.3%	32.6%
TRY Deposit Cost	11.7%	11.4%	17.1%	32.8%	23.5%
TRY Spread	3.4%	6.9%	2.2%	4.6%	9.1%
FC Loan Yield	5.6%	6.5%	9.6%	9.9%	10.3%
FC Deposit Cost	0.2%	0.2%	0.1%	0.4%	0.8%
FC Spread	5.5%	6.3%	9.5%	9.4%	9.4%
Yield on TRY Securities	17.8%	37.6%	29.0%	36.6%	24.2%
Yield on FC Securities	3.3%	5.9%	6.2%	6.4%	6.8%
Cost-to-income	22%	18%	26%	30%	29%
Cost-to-assets	1.7%	2.0%	2.6%	3.0%	3.3%
Effective tax rate	23.8%	22.6%	15.6%	30.0%	30.0%
NPL ratio	3.8%	2.6%	1.9%	2.3%	2.2%
NPL coverage	167%	210%	240%	160%	140%
Cost of risk (net)	3.2%	2.8%	2.2%	1.4%	1.3%
Leverage (x)	9.5	7.5	7.7	7.7	7.2
Free equity/equity	68%	74%	70%	67%	68%
Loans-to-deposits	80%	82%	76%	78%	85%
Loans-to-assets	54%	57%	56%	58%	61%
Securities-to-assets	12%	16%	14%	11%	9%

Source: YKY research estimates

	2021	2022	2023E	2024E	2025E
yoy growth					
42%	148%	-13%	61%	80%	
nm	719%	188%	-78%	nm	
326%	nm	nm	nm	nm	
42%	96%	139%	75%	43%	
97%	33%	124%	32%	17%	
59%	119%	40%	35%	51%	
26%	81%	108%	58%	46%	
73%	131%	24%	27%	53%	
57%	1%	33%	8%	23%	
109%	360%	21%	34%	64%	
85%	117%	140%	65%	45%	
105%	326%	29%	38%	61%	
76%	304%	-11%	166%	61%	
117%	333%	41%	15%	61%	

139%	-4%	147%	33%	33%
27%	102%	40%	8%	8%
35%	59%	60%	42%	39%
36%	59%	59%	40%	38%
12%	10%	12%	76%	33%
38%	38%	28%	17%	16%
54%	52%	61%	34%	33%
60%	54%	74%	36%	26%
13306%	69%	75%	10%	10%
15%	-41%	-30%	15%	15%
45%	-5%	25%	40%	40%
80%	40%	58%	36%	20%
29%	91%	57%	34%	43%

	2021	2022	2023E	2024E	2025E
yoy Δ					
8.3%	31.3%	-8.2%	-8.3%	5.3%	
0.7%	4.0%	-0.6%	-1.1%	0.9%	
0.5%	3.1%	-4.2%	0.8%	2.0%	
-0.9%	4.1%	-3.3%	0.5%	2.3%	
0.0%	2.6%	-3.6%	3.8%	2.2%	
2.6%	3.1%	1.0%	18.0%	-4.8%	
4.9%	-0.3%	5.7%	15.7%	-9.3%	
-2.2%	3.5%	-4.7%	2.4%	4.5%	
0.0%	0.9%	3.0%	0.3%	0.4%	
-0.1%	0.0%	-0.1%	0.3%	0.4%	
0.1%	0.9%	3.1%	0.0%	0.0%	
5.0%	19.9%	-8.6%	7.6%	-12.5%	
-0.5%	2.6%	0.3%	0.2%	0.4%	
-5.9%	-3.9%	8.1%	3.9%	-0.9%	
-0.4%	0.3%	0.6%	0.5%	0.3%	
-4.0%	-1.2%	-7.0%	14.4%	0.0%	
-0.8%	-1.2%	-0.8%	0.5%	-0.1%	
31.5%	43.6%	29.7%	-80.0%	-20.0%	
-0.2%	-0.4%	-0.5%	-0.9%	-0.1%	
1.6	-1.9	0.2	0.0	-0.5	
-4.7%	6.2%	-3.5%	-3.4%	0.6%	
-13.9%	2.8%	-6.9%	2.0%	7.6%	
-7.2%	2.7%	-0.5%	2.4%	2.1%	
-2.6%	4.1%	-2.1%	-2.8%	-2.2%	

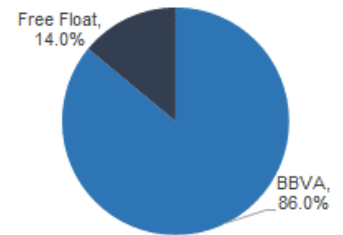
Company Description

Garanti offers lease financing, insurance, asset management, securities brokerage, automobile and mortgage loans, credit cards, and other financial services. It operates in Turkey, the Netherlands, Germany, Romania, Russia, Luxembourg, Malta, and Bahrain.

Catalysts: i) Better than expected GDP growth could support asset quality, ii) Improvement in forward CPI expectations

Risks: i) Weaker-than-anticipated economic growth could pressure asset quality beyond our estimates ii) Regulatory actions pressurizing margins and profitability, iii) Potential share sale by BBVA to increase free float

Ownership Structure



HALKBANK

Fairly valued

We revise our 12M target share for Halkbank to TL15/sh. (previously TL15.5) and reiterate our HOLD recommendation. Our 12M target price offers 16% limited return potential. The stock is trading at 0.7x P/B and 8.3x P/E based on our 2024 estimates. We find the multiples fair since we foresee an ROE of 9% in 2024, significantly lower than at private banks.

- Margins significantly lag private banks:** Halkbank's margins lagged private banks due to a TL-heavy funding composition. Halkbank's TL funding base comprises c.60% of its total funding. In 2024, we expect a flattish NIM trend.
- Asset quality ammunition partially strengthened 2022/23:** Halkbank's total coverage reached 269%, whereas stage 3 coverage became 81%. However, the bank has no free provisions and thus has limited ammunition to brave unexpected asset quality deterioration. The share of stage 2 loans is at a relatively low 6.1%.
- CET-1 ratio still uncomfortable despite several rights issues over the past couple of years:** CAR and Core Tier-1 ratios are at c.12% and c.9% w/out BRSA forbearances, respectively. Hence, we do not expect a dividend pay-out.
- Multiples reflect fair valuation:** We expect Halkbank to register 9% ROE in 2024 (vs. 9% in 2023E).
- Main risks:** i) Weaker-than-anticipated economic growth could pressure asset quality beyond our expectations, ii) Adverse regulations.

Bank Only Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	14,754	n.m.	9,954	-33%	11,226	13%	22,876	104%
Book Value	89,844	107%	124,695	39%	135,921	9%	158,797	17%
P/E (x)	2.1		8.6		8.3		4.1	
P/BV (x)	0.4		0.7		0.7		0.6	
EPS (TL)	2.97		1.39		1.56		3.18	
Div. Yield (*)	0.0%		0.0%		0.0%		0.0%	
ROAE	22.1%		9.3%		8.6%		15.5%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL15.00
Upside (Downside)	16%

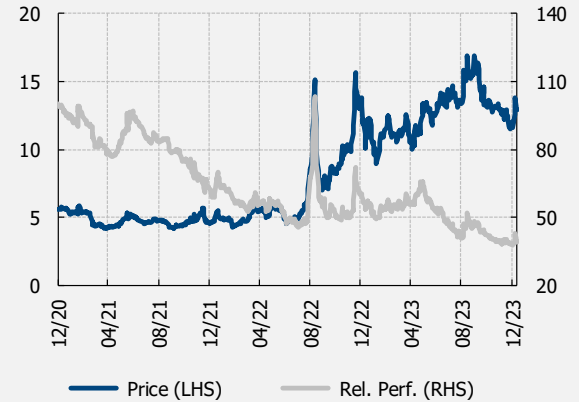
Share Data

Ticker	HALKB.TI / HALKB.IS
Close Price	TL12.95
Current MCap. (TL/US\$ mn)	93,043 / 3,100
Number of Shares (mn)	7184.778042
Free Float	9%
3m Avg. Daily Turnover (TL/US\$ mn)	624.42 / 21.70

Trading Range (High / Low) (TL)

1-month	13.79 / 11.49
1-year	16.92 / 8.99
Ytd	13.79 / 11.59

Performance (TL)	Absolute	Relative
1-month	1%	-2%
3-month	-19%	-16%
1-year	-20%	-27%
Ytd	8%	1%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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TL mln	2021	2022	2023E	2024E	2025E	2021	2022	2023E	2024E	2025E
Income Statement										
Net Interest Income (NII)	25,160	68,245	42,373	62,067	105,594	34%	171%	-38%	46%	70%
Net FX&derivatives income/(loss)	-12,757	-6,081	-14,573	-23,863	-20,524	nm	nm	nm	nm	nm
FX & Derivatives adjusted NII	12,403	62,164	27,800	38,204	85,070	-8%	401%	-56%	37%	123%
Trading income	38	205	3,340	0	0	-31%	434%	1528%	nm	nm
Net fees and commissions	4,088	8,462	17,405	29,288	42,572	56%	107%	106%	68%	45%
Other operating income	6,267	3,573	12,904	12,601	15,520	335%	-43%	261%	-2%	23%
Total banking income	22,796	74,404	61,448	80,092	143,162	30%	226%	-17%	30%	79%
Operating expenses	9,670	17,716	47,955	63,527	92,028	21%	83%	171%	32%	45%
Pre-provision profit/(loss)	13,126	56,688	13,493	16,566	51,135	37%	332%	-76%	23%	209%
Provisions expenses	11,913	36,970	3,176	1,149	19,323	74%	210%	-91%	-64%	1582%
Operating Income/(loss)	1,213	19,718	10,317	15,417	31,811	-55%	1525%	-48%	49%	106%
Dividend income	193	426	443	620	869	-62%	121%	4%	40%	40%
Pre-tax profit	1,406	20,144	10,760	16,037	32,680	-56%	1333%	-47%	49%	104%
Tax	-102	5,390	806	4,811	9,804	nm	nm	-85%	497%	104%
Net Income	1,508	14,754	9,954	11,226	22,876	-42%	879%	-33%	13%	104%

Balance Sheet	2021	2022	2023E	2024E	2025E	2021	2022	2023E	2024E	2025E
Cash and equivalents	126,959	166,171	386,429	487,550	630,985	93%	31%	133%	26%	29%
Securities	223,301	374,181	523,852	570,998	622,388	40%	68%	40%	9%	9%
Loans	517,208	789,276	1,281,384	1,703,345	2,324,541	19%	53%	62%	33%	36%
Performing Loans	523,291	824,023	1,309,712	1,713,160	2,335,466	21%	57%	59%	31%	36%
Non-performing Loans (gross)	16,297	18,594	19,033	34,044	37,893	-4%	14%	2%	79%	11%
Loan Loss Provisions	22,380	53,342	47,361	43,860	48,818	34%	138%	-11%	-7%	11%
Total assets	901,217	1,392,140	2,279,021	2,878,807	3,725,742	33%	54%	64%	26%	29%
Deposits	625,904	1,060,923	1,830,503	2,515,726	3,293,514	37%	70%	73%	37%	31%
Money market	139,170	102,159	119,768	131,745	144,920	34%	-27%	17%	10%	10%
Securities issued	6,413	8,976	10,771	12,926	15,511	-51%	40%	20%	20%	20%
Borrowings	13,684	13,660	15,026	16,829	20,194	-2%	0%	10%	12%	20%
Subordinated loans	21,643	27,215	39,804	52,105	58,960	46%	26%	46%	31%	13%
Shareholders' equity	43,500	89,844	124,695	135,921	158,797	1%	107%	39%	9%	17%

Key ratios	2021	2022	2023E	2024E	2025E	2021	2022	2023E	2024E	2025E
ROAE	3.5%	22.1%	9.3%	8.6%	15.5%	-3.4%	18.6%	-12.8%	-0.7%	6.9%
ROAA	0.2%	1.3%	0.5%	0.4%	0.7%	-0.3%	1.1%	-0.7%	-0.1%	0.3%
NIM	3.5%	6.4%	2.3%	2.5%	3.3%	0.1%	2.9%	-4.0%	0.2%	0.8%
Adjusted NIM	3.5%	6.4%	2.3%	2.5%	3.3%	0.1%	2.9%	-4.0%	0.2%	0.8%
Loan-deposit spread	3.3%	4.7%	1.4%	8.7%	9.7%	-0.6%	1.4%	-3.2%	7.3%	1.0%
TRY Loan Yield	12.9%	14.8%	17.9%	33.8%	28.1%	2.3%	1.9%	3.1%	15.9%	-5.7%
TRY Deposit Cost	14.9%	14.7%	21.4%	32.4%	23.4%	5.8%	-0.2%	6.7%	10.9%	-9.0%
TRY Spread	-2.0%	0.1%	-3.5%	1.4%	4.7%	-3.4%	2.1%	-3.6%	5.0%	3.3%
FC Loan Yield	6.6%	6.3%	7.7%	8.0%	8.4%	0.4%	-0.3%	1.4%	0.3%	0.4%
FC Deposit Cost	1.0%	1.6%	4.2%	4.0%	4.0%	0.1%	0.5%	2.7%	-0.3%	0.0%
FC Spread	5.5%	4.8%	3.5%	4.1%	4.5%	0.3%	-0.8%	-1.3%	0.6%	0.4%
Yield on TRY Securities	22.9%	30.1%	29.6%	36.1%	23.5%	9.4%	7.2%	-0.5%	6.4%	-12.6%
Yield on FC Securities	5.6%	5.2%	6.0%	5.4%	5.8%	0.8%	-0.5%	0.9%	-0.6%	0.4%
Cost-to-income	42%	24%	77%	79%	64%	-2.1%	-18.4%	53.8%	1.2%	-14.8%
NPL ratio	3.0%	2.2%	1.4%	1.9%	1.6%	-0.7%	-0.8%	-0.8%	0.5%	-0.4%
Cost of risk (net)	1.7%	5.1%	0.0%	-0.1%	0.7%	0.2%	3.4%	-5.1%	-0.1%	0.8%

Source: YKY research estimates

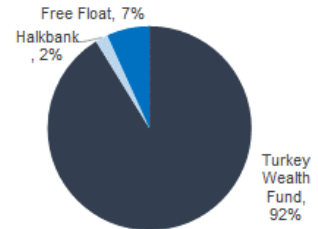
Company Description

Halkbank provides various types of banking services. The bank specializes in lending to small-to medium-sized firms and tradesmen.

Catalysts: i) Better than expected GDP growth could support asset quality, ii) Improvement in forward CPI expectations

Risks: i) Weaker-than-anticipated economic growth could lead to asset quality deterioration beyond our expectations, ii) Regulatory pressure on profitability

Ownership Structure



ISBANK

Undemanding multiples & NAV discount to narrow

We revise our 12M share target for Isbank to 34TL/sh (TL29.5/sh prev.) and reiterate our BUY recommendation. Our 12M target price offers 31% return potential. The stock currently trades at undemanding multiples of 0.8x and 3.1x P/E based on our 2024 estimates.

- **Solid capitalization thanks to large subsidiary gains:** Isbank's CAR and Core Tier-1 ratios reached 18% and 14.6%, respectively w/out BRSA forbearances.
- **Significantly stronger coverage ratio and free provisions:** Isbank's total and stage 3 coverage ratios have reached 178% and 81%, respectively. The bank's free provision stock is significant at TL6.5bn (3% of total equity).
- **Robust contribution from subsidiaries portfolio set to continue & NAV discount to narrow:** We foresee the bank generating TL61bn subsidiary income in 2024, +65% y/y, which should continue to support the bottom line. Isbank's current mcap discount to its current NAV is at c.35%, which we believe should further narrow going forward. Note that the discount was c.60% during 1H23, narrowing beyond August 2023 since the bank disclosed the establishment of "İş Holding," which will own all subsidiaries.
- **BUY maintained:** We project Isbank delivering 31% ROE in 2024 (vs. 32% in 2023E). Based on our average 29% cost of equity assumption, Isbank's 2024E P/B could reach 1x.
- **Main risks:** i) Regulations, ii) Delays to the holding transaction, iii) The bank's low rate fixed TL government securities amount to TL100bn (5% of total assets). Any adverse resolution (if any) could pressure Isbank more than other banks.

Bank Only Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	61,537	357%	69,418	13%	84,341	21%	130,199	54%
Book Value	191,376	120%	239,085	25%	313,013	31%	426,344	36%
P/E (x)	1.0		2.4		3.1		2.0	
P/BV (x)	0.3		0.7		0.8		0.6	
EPS (TL)	6.15		6.94		8.43		13.02	
Div. Yield (*)	3.5%		7.1%		4.0%		6.5%	
ROAE	44.2%		32.3%		30.6%		35.2%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating

BUY

Target Price

TL34.00

Upside (Downside)

31%

Share Data

Ticker	ISCTR.TI / ISCTR.IS
Close Price	TL25.96
Current MCap. (TL/US\$ mn)	259,599 / 8,649
Number of Shares (mn)	9999.97
Free Float	31%
3m Avg. Daily Turnover (TL/US\$ mn)	3,751.02 / 129.75

Trading Range (High / Low) (TL)

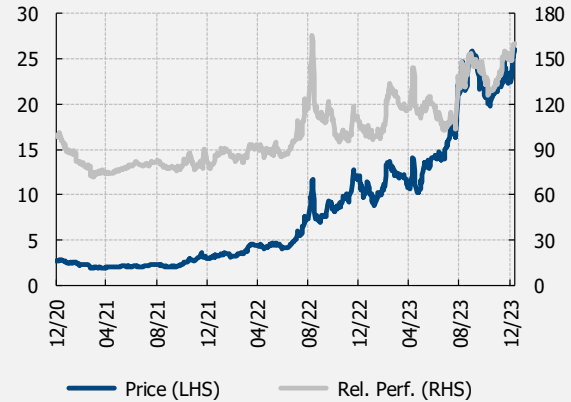
1-month	25.96 / 22.30
1-year	25.96 / 8.84
Ytd	25.96 / 22.44

Performance (TL)

Absolute

Relative

1-month	16%	12%
3-month	5%	9%
1-year	157%	56%
Ytd	11%	4%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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TL mln	2021	2022	2023E	2024E	2025E
Income Statement					
Net Interest Income (NII)	30,941	75,203	64,982	121,081	198,068
Net FX&derivatives income/(loss)	-5,506	1,208	12,673	-3,702	-2,635
FX & Derivatives adjusted NII	25,435	76,411	77,654	117,379	195,433
Trading Income	357	3,315	3,949	0	0
Net fees and commissions	7,620	16,147	38,859	69,422	98,931
Other operating income	4,402	6,081	14,484	18,769	24,702
Total banking income	37,813	101,953	134,946	205,570	319,066
Operating expenses	15,912	34,029	73,803	128,594	203,437
Pre-provision profit/(loss)	21,902	67,924	61,144	76,976	115,629
Provisions expenses	14,450	15,804	17,199	25,751	30,814
Operating Income/(loss)	7,452	52,120	43,945	51,225	84,815
Dividend income	8,024	21,829	37,109	61,230	88,784
Pre-tax profit	15,476	73,949	81,054	112,455	173,599
Tax	2,008	12,411	11,636	28,114	43,400
Net income	13,468	61,537	69,418	84,341	130,199

Key ratios	2021	2022	2023E	2024E	2025E
ROAE	17.4%	44.2%	32.3%	30.6%	35.2%
ROAA	1.8%	5.3%	3.9%	3.4%	4.1%
NIM	4.7%	7.0%	3.9%	5.5%	7.3%
Adjusted NIM	2.7%	5.9%	3.2%	4.4%	6.8%
Loan-deposit spread	6.6%	8.4%	6.0%	10.0%	12.6%
Loan Yield	10.8%	12.7%	15.1%	26.1%	24.0%
Deposit Cost	4.2%	4.3%	9.1%	16.1%	11.4%
TRY Loan Yield	13.7%	17.3%	18.7%	36.3%	32.0%
TRY Deposit Cost	11.5%	11.9%	19.1%	31.3%	21.5%
TRY Spread	2.2%	5.3%	-0.4%	5.0%	10.5%
FC Loan Yield	6.2%	6.5%	9.1%	9.8%	10.4%
FC Deposit Cost	0.1%	0.2%	0.5%	0.9%	1.3%
FC Spread	6.1%	6.3%	8.6%	8.8%	9.0%
Yield on TRY Securities	16.1%	24.7%	22.6%	29.3%	21.2%
Yield on FC Securities	4.3%	5.2%	5.9%	6.3%	6.7%
Cost-to-income	35%	27%	43%	48%	50%
Cost-to-assets	1.7%	2.4%	3.4%	4.6%	5.8%
Effective tax rate	13.0%	16.8%	14.4%	25.0%	25.0%
NPL ratio	4.1%	3.0%	1.8%	2.2%	2.1%
NPL coverage	136%	141%	179%	129%	119%
Cost of risk (net)	1.6%	0.9%	1.0%	1.2%	1.0%
Leverage (x)	10.7	7.4	9.2	9.0	8.2
Free equity/equity	42%	47%	30%	18%	23%
Loans-to-deposits	83%	82%	73%	78%	81%
Loans-to-assets	53%	54%	49%	53%	57%
Securities-to-assets	17%	20%	18%	16%	15%

Source: YKY research estimates

	2021	2022	2023E	2024E	2025E
yoy growth					
23%	143%	-14%	86%	64%	
nm	nm	949%	nm	nm	
18%	200%	2%	51%	66%	
6%	828%	19%	nm	nm	
36%	112%	141%	79%	43%	
81%	38%	138%	30%	32%	
26%	170%	32%	52%	55%	
35%	114%	117%	74%	58%	
21%	210%	-10%	26%	50%	
14%	9%	9%	50%	20%	
37%	599%	-16%	17%	66%	
134%	172%	70%	65%	45%	
75%	378%	10%	39%	54%	
-2%	518%	-6%	142%	54%	
98%	357%	13%	21%	54%	

	2021	2022	2023E	2024E	2025E
yoy Δ					
6.7%	26.8%	-12.0%	-1.7%	4.7%	
0.5%	3.5%	-1.4%	-0.5%	0.8%	
-0.2%	2.3%	-3.0%	1.6%	1.7%	
-1.2%	3.2%	-2.7%	1.2%	2.4%	
-0.1%	1.8%	-2.4%	4.0%	2.6%	
1.3%	1.9%	2.4%	10.9%	-2.1%	
1.4%	0.1%	4.8%	7.0%	-4.7%	
2.2%	3.5%	1.4%	17.6%	-4.3%	
4.8%	0.4%	7.2%	12.2%	-9.8%	
-2.6%	3.1%	-5.7%	5.4%	5.5%	
-0.2%	0.3%	2.6%	0.6%	0.6%	
-0.2%	0.1%	0.3%	0.4%	0.4%	
0.0%	0.2%	2.3%	0.2%	0.2%	
3.6%	8.6%	-2.1%	6.8%	-8.2%	
0.2%	1.0%	0.6%	0.4%	0.4%	
-0.6%	-7.2%	15.4%	5.3%	1.7%	
-0.3%	0.7%	1.0%	1.2%	1.3%	
-10.1%	3.8%	-2.4%	10.6%	0.0%	
-1.5%	-1.1%	-1.1%	0.4%	-0.2%	
21.3%	5.1%	37.4%	-50.0%	-10.0%	
-0.9%	-0.7%	0.1%	0.2%	-0.2%	
1.9	-3.3	1.8	-0.1	-0.8	
-6.6%	5.0%	-16.6%	-11.9%	5.3%	
-10.7%	-1.3%	-8.6%	4.6%	3.5%	
-4.9%	0.7%	-4.6%	3.9%	3.3%	
-2.1%	3.1%	-1.5%	-2.1%	-1.3%	

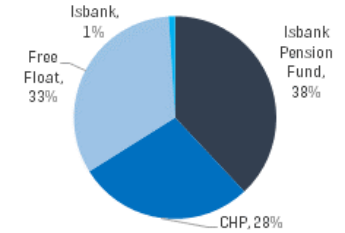
Company Description

Isbank provides banking services to retail and corporate customers and to public sector. Isbank also offers asset and wealth management, capital markets, securities brokerage and insurance services throughout Turkey. Isbank holds equity investments in Turkish companies mainly in glass industries.

Catalysts: i) Better than expected GDP growth could support asset quality, ii) Improvement in forward CPI estimates

Risks: i) Weaker-than-anticipated economic growth could delay asset quality improvement ii) Regulatory pressure, iii) Delays in planned holding structure, iv) The bank's low rate fixed TL securities amount to TL100bn (5% of total assets). Any adverse resolution (if any) could pressurize Isbank more than other banks

Ownership Structure



TSKB

Positive 2024 outlook & premier ROE

We fine-tune our 12M target share for TSKB to TL11/sh. (previously TL9.8) thanks to a better-than-expected profitability outlook, and retain our BUY recommendation. Our 12M target price offers 46% upside potential. The stock is currently trading at 2024E 0.7x P/B and 2.2x P/E based on our estimates. We expect 37% ROE in 2024 (2023E: 43%). TSKB has been a member of our Model Portfolio since Nov '22 and provided a 28% relative return vs. the XU100.

- Foreign currency (FC) denominated balance sheet to defend margins:** 93% of TSKB's loans are denominated in FC. Seventy-one percent of the total are investment loans with long-term maturity. The energy sector comprises 41% of TSKB's total loans (36% to electricity generation and 5% to electricity/gas distribution). Out of its loans to the energy generation sector, 91% are to the renewables segment. Almost all of TSKB's funding is denominated in FC with long-term maturity. Since TSKB is an investment bank, it does not collect deposits and thus is unaffected by the recent rise in TL deposit rates.
- SDG-linked lending comprises 92% of the loan book:** SDG-linked loans account for 92% of the bank's total loan book, which could attract SDG investors.
- Less vulnerable to adverse regulations:** TSKB is less vulnerable to adverse regulations introduced in the past (TL/FC deposit requirements, fixed TL bond purchases, etc.).
- Prudent asset quality buffers:** The bank has hiked its coverage ratios; total and stage 3 coverage ratios have reached 316% and 95%, respectively. The bank has a free provision buffer of TL1,750mn, equivalent to c.10% of its total equity.
- Capital ratios supported by solid internal capital generation:** The bank's CAR and CET-1 ratios are at 17.6% and 12.6%, respectively, w/out BRSA forbearances as of 3Q23.
- Main risks:** i) Worsening outlook for the energy sector, ii) Adverse regulations.

Bank Only Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	4,055	272%	7,228	78%	9,414	30%	11,238	19%
Book Value	12,782	84%	21,097	65%	29,426	39%	40,665	38%
P/E (x)	1.8		2.2		2.2		1.9	
P/BV (x)	0.6		0.7		0.7		0.5	
EPS (TL)	1.45		2.58		3.36		4.01	
Div. Yield (*)	0.0%		0.0%		3.4%		4.5%	
ROAE	41.1%		42.7%		37.3%		32.1%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL11.00
Upside (Downside)	46%

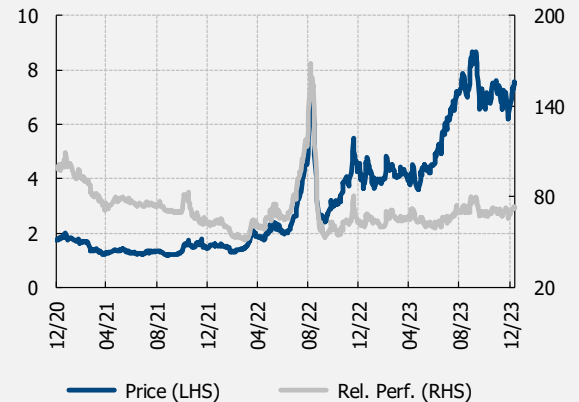
Share Data

Ticker	TSKB.TI / TSKB.IS
Close Price	TL7.51
Current MCap. (TL/US\$ mn)	21,028 / 701
Number of Shares (mn)	2800
Free Float	39%
3m Avg. Daily Turnover (TL/US\$ mn)	414.21 / 14.46

Trading Range (High / Low) (TL)

1-month	7.56 / 6.19
1-year	8.65 / 3.58
Ytd	7.56 / 6.55

Performance (TL)	Absolute	Relative
1-month	9%	5%
3-month	-9%	-6%
1-year	98%	20%
Ytd	15%	7%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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TL mln	2021	2022	2023E	2024E	2025E
Income Statement					
Net interest income (NII)	2,863	6,735	9,137	12,880	14,692
Net FX&derivatives income/(loss)	500	786	2,050	50	224
FX & Derivatives adjusted NII	3,363	7,521	11,187	12,930	14,917
Trading income	9	15	-21	0	0
Net fees and commissions	71	158	357	608	912
Other operating income	58	93	133	180	240
Total banking income	3,501	7,788	11,657	13,718	16,068
Operating expenses	263	505	1,095	1,846	2,853
Pre-provision profit/(loss)	3,238	7,283	10,562	11,872	13,215
Provisions expenses	2,011	3,139	2,761	2,226	2,674
Operating Income/(loss)	1,226	4,143	7,802	9,646	10,541
Dividend income	232	998	2,377	3,802	5,514
Pre-tax profit	1,458	5,141	10,178	13,448	16,055
Tax	369	1,086	2,950	4,034	4,816
Net income	1,089	4,055	7,228	9,414	11,238

Balance Sheet					
Cash and equivalents	3,820	4,170	5,515	7,833	10,634
Securities	13,140	23,880	26,744	30,756	33,832
Loans (net)	60,445	74,395	120,909	178,809	248,230
Performing Loans	61,481	77,567	125,463	183,111	252,948
Non-performing Loans (gross)	2,077	2,327	2,100	3,143	3,718
Loan Loss Provisions	3,113	5,499	6,653	7,445	8,436
Equity Participations	1,695	3,483	6,524	10,809	18,297
Premises, Equipment & Intangibles	164	200	338	408	493
Total assets	84,096	115,575	166,485	236,452	321,031
Money market	775	1,443	2,886	3,751	4,877
Securities issued	14,928	21,048	26,565	38,902	50,418
Borrowings	54,936	71,552	111,753	162,123	217,883
Subordinated loans	4,029	3,829	8,850	12,000	14,400
Shareholders' equity	6,941	12,782	21,097	29,426	40,665

Key ratios	2021	2022	2023E	2024E	2025E
ROAE	16.7%	41.1%	42.7%	37.3%	32.1%
ROAA	1.6%	4.1%	5.1%	4.7%	4.0%
NIM	4.9%	7.2%	6.9%	6.9%	5.8%
Adjusted NIM	5.7%	8.0%	8.5%	6.9%	5.8%
TRY Loan Yield	11.2%	11.9%	15.3%	33.6%	29.9%
FC Loan Yield	6.1%	7.0%	9.9%	10.4%	11.3%
FC Borrowing Costs	1.5%	3.1%	6.5%	7.1%	7.5%
Yield on TRY Securities	17.8%	44.1%	39.0%	44.1%	24.4%
Yield on FC Securities	5.1%	6.6%	7.4%	7.1%	7.3%
Cost-to-income	7%	6%	8%	11%	13%
Cost-to-assets	0.3%	0.4%	0.7%	0.8%	0.9%
Effective tax rate	25.3%	21.1%	29.0%	30.0%	30.0%
NPL ratio	3.3%	2.9%	1.6%	1.7%	1.4%
Cost of risk (net)	2.8%	3.2%	1.5%	1.3%	1.1%
Leverage (x)	12.1	9.0	7.9	8.0	7.9
Free equity/equity	73%	71%	67%	62%	54%
Loans-to-assets	73%	67%	75%	77%	79%
Securities-to-assets	16%	21%	16%	13%	11%

Source: YKY research estimates

	yoy growth				
2021	2022	2023E	2024E	2025E	
43%	135%	36%	41%	14%	
1413%	57%	161%	-98%	350%	
65%	124%	49%	16%	15%	
21%	75%	nm	nm	nm	
41%	124%	126%	70%	50%	
885%	60%	44%	35%	33%	
67%	122%	50%	18%	17%	
19%	92%	117%	69%	55%	
73%	125%	45%	12%	11%	
99%	56%	-12%	-19%	20%	
42%	238%	88%	24%	9%	
182%	330%	138%	60%	45%	
54%	253%	98%	32%	19%	
72%	194%	172%	37%	19%	
49%	272%	78%	30%	19%	

206%	9%	32%	42%	36%
65%	82%	12%	15%	10%
63%	23%	63%	48%	39%
65%	26%	62%	46%	38%
23%	12%	-10%	50%	18%
78%	77%	21%	12%	13%
38%	105%	87%	66%	69%
4%	21%	69%	21%	21%
63%	37%	44%	42%	36%
-26%	86%	100%	30%	30%
86%	41%	26%	46%	30%
69%	30%	56%	45%	34%
75%	-5%	131%	36%	20%
14%	84%	65%	39%	38%

	yoy Δ				
2021	2022	2023E	2024E	2025E	
4.2%	24.4%	1.5%	-5.4%	-5.2%	
0.0%	2.5%	1.1%	-0.5%	-0.6%	
0.4%	2.3%	-0.3%	0.0%	-1.2%	
1.2%	2.3%	0.5%	-1.5%	-1.1%	
1.8%	0.7%	3.4%	18.3%	-3.8%	
-0.1%	0.9%	2.9%	0.5%	0.9%	
-0.4%	1.5%	3.4%	0.6%	0.4%	
4.5%	26.3%	-5.1%	5.1%	-19.7%	
-0.4%	1.5%	0.8%	-0.3%	0.2%	
-3.1%	-1.3%	2.1%	2.7%	2.7%	
-0.1%	0.1%	0.2%	0.1%	0.1%	
2.7%	-4.2%	7.9%	1.0%	0.0%	
-1.1%	-0.4%	-1.3%	0.0%	-0.2%	
0.3%	0.4%	-1.7%	-0.3%	-0.2%	
3.7	-3.1	-1.2	0.1	-0.1	
-4.0%	-2.0%	-3.7%	-5.6%	-8.1%	
0.8%	-6.0%	8.2%	2.1%	1.4%	
0.2%	5.0%	-4.6%	-3.1%	-2.5%	

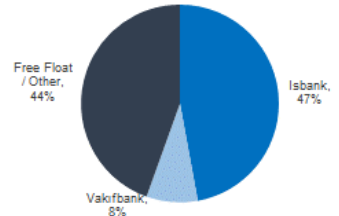
Company Description

TSKB provides mainly long term foreign currency investment and project finance to companies. 93% of the loans are in FC. The bank has strong relationship with international institutions for obtaining long-term funding. Almost half of the bank's funding base is guaranteed by the Turkish Treasury.

Catalysts: i) Better than expected GDP growth could support asset quality

Risks: i) Worsening outlook of energy sector, ii) Adverse regulations

Ownership Structure



VAKIFBANK

Fairly valuation

We have fine-tuned our 12M target share price for Vakıfbank to TL18/sh. (prev. TL19.5) and maintain our HOLD recommendation. Our 12M target price offers 22% return potential. The stock is currently trading at 0.8x P/B and 4.9x P/E on our 2024 estimates. We find the multiples fair since we foresee an ROE of 17% in 2024, lower than at private banks.

- **TL loan-deposit spread significantly lags private banks:** Vakıfbank's core margins have lagged private banks. However, we expect gradual TL spread expansion in 2024.
- **Prudent provisioning buffers:** Regarding asset quality, the total coverage ratio is at 252%, one of the highest among peers. Cushioning is ensured by additional free provision stock of TL6.7bn.
- **CET-1 ratio still not very comfortable despite several rights issues over the past few years:** CAR and Core Tier-1 ratios are at 13.1% and 10% w/out BRSA forbearances, respectively. Hence, we do not expect a dividend pay-out.
- **Multiples reflect fair valuation:** We expect Vakıfbank to register 17% ROE in 2024 (vs. 19% in 2023E). Hence, we find 0.8x P/B fair.
- **Main risks:** i) Weaker-than-anticipated economic growth could lead to asset quality deterioration beyond our expectations, and ii) adverse regulations.

Bank Only Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	24,017	475%	26,351	10%	30,187	15%	45,307	50%
Book Value	106,985	106%	164,561	54%	194,749	18%	240,056	23%
P/E (x)	1.7		4.2		4.9		3.2	
P/BV (x)	0.4		0.7		0.8		0.6	
EPS (TL)	3.38		2.66		3.04		4.57	
Div. Yield (*)	0.0%		0.0%		0.0%		0.0%	
ROAE	30.2%		19.4%		16.8%		20.8%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL18.00
Upside (Downside)	22%

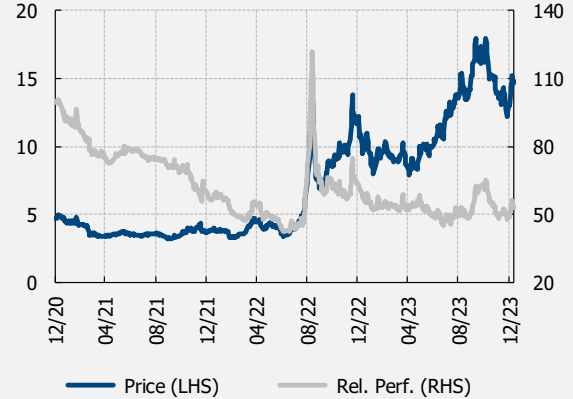
Share Data

Ticker	VAKBN.TI / VAKBN.IS
Close Price	TL14.79
Current MCap. (TL/US\$ mn)	146,656 / 4,886
Number of Shares (mn)	9915.921523
Free Float	6%
3m Avg. Daily Turnover (TL/US\$ mn)	1,001.42 / 34.98

Trading Range (High / Low) (TL)

1-month	15.25 / 12.22
1-year	18.00 / 7.91
Ytd	15.25 / 12.84

Performance (TL)	Absolute	Relative
1-month	9%	6%
3-month	-18%	-15%
1-year	51%	-8%
Ytd	15%	8%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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TL mln	2021	2022	2023E	2024E	2025E
Income Statement					
Net Interest income (NII)	19,543	73,715	38,950	76,113	119,924
Net FX&derivatives income/(loss)	-5,498	3,249	16,223	-4,866	-8,740
FX & Derivatives adjusted NII	14,045	76,964	55,173	71,246	111,185
Trading income	749	1,741	6,014	0	0
Net fees and commissions	4,501	10,793	24,058	43,266	66,815
Other operating income	7,947	9,678	38,122	30,697	31,352
Total banking income	27,242	99,176	123,367	145,210	209,352
Operating expenses	9,508	17,932	53,847	66,526	96,152
Pre-provision profit/(loss)	17,734	81,244	69,520	78,685	113,200
Provisions expenses	12,559	44,150	36,106	35,941	49,009
Operating Income/(loss)	5,175	37,095	33,414	42,743	64,191
Dividend income	121	149	231	381	534
Pre-tax profit	5,296	37,244	33,645	43,125	64,725
Tax	1,120	13,226	7,294	12,937	19,417
Net income	4,175	24,017	26,351	30,187	45,307

Balance Sheet					
Cash and equivalents	165,455	297,481	400,005	514,344	645,548
Securities	228,821	372,852	558,879	614,767	676,244
Loans (net)	566,075	912,168	1,439,920	1,946,848	2,530,424
Performing Loans	573,700	933,451	1,470,802	1,970,393	2,559,426
Non-performing Loans (gross)	18,310	20,274	20,280	45,038	55,475
Loan Loss Provisions	25,935	41,557	51,162	68,583	84,476
Total assets	1,007,214	1,681,061	2,532,905	3,256,922	4,087,731
Deposits	590,943	1,127,702	1,818,248	2,387,232	3,099,706
Money market	143,881	132,532	185,545	222,654	267,184
Securities issued	61,975	69,854	80,332	89,972	100,769
Borrowings	91,434	130,749	156,895	169,447	183,003
Subordinated loans	28,968	24,043	22,303	31,820	38,184
Shareholders' equity	51,953	106,985	164,561	194,749	240,056

Key ratios	2021	2022	2023E	2024E	2025E
ROAE	8.5%	30.2%	19.4%	16.8%	20.8%
ROAA	0.5%	1.8%	1.3%	1.0%	1.2%
NIM	2.6%	6.0%	1.9%	2.8%	3.5%
Adjusted NIM	1.6%	5.7%	1.6%	1.9%	2.8%
Loan-deposit spread	3.9%	4.1%	-0.1%	5.4%	5.8%
TRY Loan Yield	12.8%	14.1%	17.1%	34.5%	26.5%
TRY Deposit Cost	12.7%	12.7%	22.5%	32.6%	23.6%
TRY Spread	0.1%	1.4%	-5.5%	1.9%	2.9%
FC Loan Yield	5.9%	6.1%	8.6%	9.3%	9.9%
FC Deposit Cost	1.0%	1.6%	1.5%	1.9%	2.3%
FC Spread	4.9%	4.5%	7.1%	7.4%	7.6%
Yield on TRY Securities	17.4%	39.6%	31.6%	37.2%	36.8%
Yield on FC Securities	4.1%	4.6%	5.9%	6.3%	6.5%
Cost-to-income	35%	18%	44%	46%	46%
Effective tax rate	21.2%	35.5%	21.7%	30.0%	30.0%
NPL ratio	3.1%	2.1%	1.4%	2.2%	2.1%
Cost of risk (net)	1.0%	2.5%	1.0%	0.8%	1.2%
Leverage (x)	19.4	15.7	15.4	16.7	17.0
Loans-to-deposits	97%	83%	81%	83%	83%
Securities-to-assets	23%	22%	22%	19%	17%

Source: YKY research estimates

	2021	2022	2023E	2024E	2025E
yoy growth					
-2%	277%	-47%	95%	58%	nm
nm	nm	399%	nm	nm	nm
-11%	448%	-28%	29%	56%	nm
-53%	133%	245%	nm	nm	nm
33%	140%	123%	80%	54%	nm
27%	22%	294%	-19%	2%	nm
1%	264%	24%	18%	44%	nm
6%	89%	200%	24%	45%	nm
-2%	358%	-14%	13%	44%	nm
7%	252%	-18%	0%	36%	nm
-17%	617%	-10%	28%	50%	nm
-28%	23%	55%	65%	40%	nm
-18%	603%	-10%	28%	50%	nm
-22%	1081%	-45%	77%	50%	nm
-17%	475%	10%	15%	50%	nm

73%	80%	34%	29%	26%
55%	63%	50%	10%	10%
35%	61%	58%	35%	30%
36%	63%	58%	34%	30%
5%	11%	0%	122%	23%
20%	60%	23%	34%	23%
44%	67%	51%	29%	26%
43%	91%	61%	31%	30%
45%	-8%	40%	20%	20%
36%	13%	15%	12%	12%
95%	43%	20%	8%	8%
49%	-17%	-7%	43%	20%
12%	106%	54%	18%	23%

	2021E	2022	2023E	2024E	2025E
yoy Δ					
-4.1%	21.7%	-10.8%	-2.6%	4.0%	0.2%
-0.4%	1.3%	-0.5%	-0.2%	0.7%	0.2%
-1.2%	3.4%	-4.1%	0.9%	0.7%	0.2%
-1.7%	4.1%	-4.2%	0.3%	1.0%	0.4%
-1.1%	0.2%	-4.1%	5.5%	0.4%	0.4%
1.5%	1.3%	3.0%	17.4%	-8.0%	-0.4%
4.8%	0.0%	9.8%	10.1%	-9.0%	-0.4%
-3.3%	1.3%	-6.8%	7.3%	1.0%	0.6%
-0.1%	0.2%	2.5%	0.7%	0.6%	0.4%
-0.1%	0.6%	-0.1%	0.4%	0.4%	0.2%
0.0%	-0.4%	2.6%	0.2%	-0.4%	0.2%
4.4%	22.2%	-8.0%	5.6%	-0.4%	0.2%
0.1%	0.5%	1.3%	0.4%	0.2%	0.1%
1.8%	-16.7%	25.5%	2.1%	0.1%	0.0%
-1.0%	14.4%	-13.8%	8.3%	0.0%	-0.1%
-0.9%	-1.0%	-0.8%	0.9%	-0.1%	0.3%
-0.7%	1.5%	-1.4%	-0.2%	0.3%	0.3%
4.4	-3.7	-0.3	1.3	0.3	0.0%
-4.8%	-14.3%	-1.9%	1.6%	0.0%	-2.3%
1.6%	-0.5%	-0.1%	-3.2%	-2.3%	

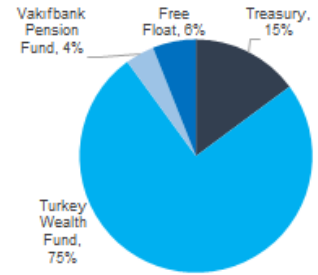
Company Description

Vakıfbank provides various types of banking services. The bank specializes in lending to small-to medium-sized firms and tradesmen

Catalysts: i) Better than expected GDP growth could support asset quality, ii) Improvement in forward CPI expectations

Risks: i) Weaker-than-anticipated economic growth could lead to asset quality deterioration beyond our expectations ii) Regulatory pressure on profitability

Ownership Structure



Pension & Insurance & Investment

- **Pension:** We foresee pension assets under management (AuM) growing by c.60% in 2024 (vs. 80% in 2023) on the back of a more visible macroeconomic outlook and strengthening capital markets. **Anadolu Hayat** and **Agesa's** pension businesses should continue to generate sustainable profitability. Sector-supportive actions could also be taken. The latest minimum wage hike also supports pension companies since fund management fees are linked to the minimum wage.
- **Life Insurance:** Life insurance gross written premium (GWP) production is highly dependent on TL consumer loan growth. Hence, sluggish TL consumer loan growth in 2024 should negatively impact life insurance companies. We foresee both **Anadolu Hayat** and **Agesa** registering slower GWP growth of c.50% during 2024 compared to c.100% in 2023. We expect both companies to distribute dividends from 2023 earnings thanks to comfortable solvency ratios and solid profitability. We foresee c.5% dividend yields.
- **Non-life insurance:** For **Aksigorta** and **Türkiye Sigorta**, we expect c.65% GWP growth and gradual recovery of technical results. The insurance regulator introduced various sector supportive actions on loss making MTPL segment effective from 1 January which should support technical results. These insurers' also benefit from limited TL depreciation since their claims on MoD and MTPL are dependent on the level of Turkish Lira. Additionally, these companies' expanding assets under management should continue to support investment income gains. Elevated TL deposit rates and improving Türkiye CDS should boost their investment gains. We expect **Türkiye Sigorta** to distribute dividends (expected yield of 4%) while we foresee **Aksigorta** refraining, mainly due to a relatively weaker solvency ratio.
- **Investment:** We foresee **Ünlü Yatırım Holding** delivering solid earnings growth in 2024 based on our expectation of higher foreign investor demand in the Turkish capital markets. We foresee institutional sales and M&A businesses benefitting from potential foreign entry to the Turkish capital markets. Ünlü Yatırım Holding's NPL business should also provide resilience and support company earnings during 1H24 since NPL collections remain solid amid the inflationary environment & due to the positive impact of the minimum wage increase. During 2H24, we expect to observe some deceleration in NPL collections. On the other hand, our expectation of a potential increase in banking sector NPLs and potentially higher banks' NPL sales could reduce banks' NPL portfolio sale prices and create new attractive investment opportunities for the company. We foresee 4% dividend yield from 2023 earnings. **The company will adapt inflation accounting. Based on our preliminary estimates, we would expect to observe the company to record monetary losses which will pull down earnings. We did not incorporate any potential negative impact of inflation accounting into our estimates.**
- **Among non-coverage companies,** we expect **Gelecek Varlık <GLCVY TI>** to outperform the **BIST100 index in 2024**. The company is the leader in NPL investments, with a market share of c.25%. We foresee the NPL stock of Turkish banks rising due to the expected economic slowdown. This should lead to lower pricing for new NPL portfolio sales. During 2023, the total NPL sale market was at TL14bn, and we foresee the market reaching TL20bn-TL25bn range in 2024. The latest minimum wage hike of 49% should support Gelecek Varlık's collections during 1H24. The company has consistently distributed dividends over the past two years. Based on a TL700mn 2023FY net profit assumption, the company trades at 3.3x P/B and 7x P/E with 55% ROE. Note that the company had distributed dividends with a 77% pay-out ratio from 2022 earnings. Based on a 50% dividend pay-out assumption, we estimate a 7% dividend yield from 2023 earnings. GLCVY will not implement inflation accounting in 2024.

Table 3: YKY Insurance & Pension & Investment Estimates

Solo Financials - mn TL	AKGRT Non-life	TURSG Non-life & Pension	ANHYT Life & Pension	AGESA Life & Pension	UNLU Investment
Current Share Price	6.12	44.68	39.30	55.00	16.56
Target Price	8.20	62.0	55.00	70.00	23.00
Upside	34%	39%	40%	27%	39%
Rating	BUY	BUY	BUY	HOLD	HOLD
Net Profit					
2021	189	1,058	686	448	80
2022	-121	941	1,355	834	269
2023E	717	6,518	2,601	1,294	414
2024E	1,666	11,517	3,580	1,896	659
2025E	2,569	14,517	4,316	2,485	946
YKY YoY Net Profit growth					
2021	-57%	-8%	32%	54%	30%
2022	n.m.	-11%	98%	86%	238%
2023E	n.m.	592%	92%	55%	54%
2024E	132%	77%	38%	47%	59%
2025E	54%	26%	21%	31%	44%
P/E (x)					
2020	4.7	3.1	6.1	8.6	
2021	13.3	6.2	6.2	7.6	12.1
2022E	14.7	7.2	9.2	10.4	14.6
2023E	9.8	3.7	4.8	6.1	5.7
2024E	5.9	4.5	4.7	5.2	4.4
2025E	3.8	3.6	3.9	4.0	3.1
P/B (x)					
2020	1.8	1.0	2.0	3.7	
2021	2.4	1.5	2.3	3.9	1.6
2022	1.2	1.2	1.9	2.8	1.3
2023E	2.6	1.9	2.0	2.8	1.8
2024E	2.3	2.3	1.9	2.3	1.6
2025E	1.6	1.6	1.5	1.6	1.1
Dividend Yield					
2021	3.1%	0.9%	2.1%	1.6%	0.0%
2022	0.0%	1.0%	2.6%	0.0%	0.6%
2023E	0.0%	0.3%	2.7%	1.5%	1.7%
2024E	0.0%	3.8%	6.2%	3.9%	3.5%
2025E	6.8%	8.9%	10.6%	7.7%	6.7%
ROE					
2020	42%	39%	36%	49%	27%
2021	17%	28%	40%	57%	19%
2022	-7%	18%	52%	65%	36%
2023E	29%	68%	54%	58%	38%
2024E	47%	66%	47%	53%	42%
2025E	48%	53%	43%	48%	41%

Source: YKY Research

AGESA Emeklilik

Pension business to offset life segment weakness

We revise our 12M target share price upward for Agesa to TL70/sh. (previously TL67) and reiterate our HOLD recommendation. We revise upward our TP thanks to a better-than-expected outlook on investment gains. Our 12M target price offers 27% return potential. The stock is currently trading at 2.3x 2024E P/B and 5.2x P/E based on our estimates. We also calculate a 4% dividend yield from 2023 earnings.

- We foresee private pension AuM growth of c.60% y/y in 2024:** Private pension AuM grew c.90% y/y in 2023. We expect AuM growth of 62% in 2024, driven by the improving macroeconomic outlook and potential regulatory actions supportive of the private pension business.
- Life insurance business growth to decelerate amid elevated TL interest rates:** We foresee the company registering c.60% y/y life GWP growth in 2024 due to decelerating consumer lending growth in the banking sector.
- Secular dividend payer:** In our forecasts, we assume a 30% pay-out ratio for Agesa, equivalent to a 4% dividend yield from 2023 earnings. We expect a dividend distribution since the company's solvency ratio is at a comfortable level of 145% as of 3Q23, above the regulatory requirement.
- Main risks:** i) macro volatility negatively impacting pension AuMs, exit rates, and new enrollments, and (ii) regulatory measures on the bancassurance business.

Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	834	86%	1,294	55%	1,896	47%	2,485	31%
Book Value	1,691	92%	2,775	64%	4,343	56%	6,069	40%
P/E (x)	5.6		6.1		5.2		4.0	
P/BV (x)	2.8		2.8		2.3		1.6	
EPS (TL)	4.63		7.19		10.53		13.80	
Div. Yield (*)	0.0%		1.4%		3.9%		7.7%	
ROAE	64.8%		57.9%		53.3%		47.7%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL70.00
Upside (Downside)	27%

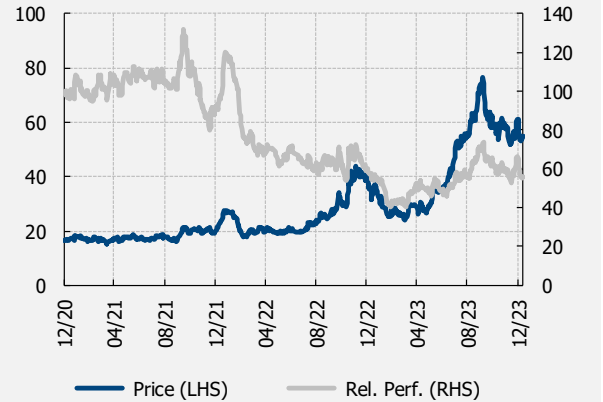
Share Data

Ticker	AGESA.TI / AGESA.IS
Close Price	TL55.00
Current MCap. (TL/US\$ mn)	9,900 / 330
Number of Shares (mn)	180
Free Float	20%
3m Avg. Daily Turnover (TL/US\$ mn)	30.57 / 1.06

Trading Range (High / Low) (TL)

1-month	61.10 / 51.90
1-year	76.55 / 24.12
Ytd	61.10 / 53.10

Performance (TL)	Absolute	Relative
1-month	5%	2%
3-month	-18%	-16%
1-year	68%	2%
Ytd	-10%	-16%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Balance Sheet (TL mn)	2021	2022	2023E	2024E	2025E
Cash & Equivalents	1,038	1,091	1,627	1,952	2,343
Financial Investments	753	2,371	3,790	5,685	7,675
Life Insurance Investments	4,258	7,357	13,901	21,517	31,031
Pension Receivables	43,489	75,639	134,310	217,569	319,553
Other Assets	677	1,124	950	1,045	1,150
Total Assets	50,216	87,583	152,992	246,317	360,591
Pension payables	43,858	76,357	135,586	219,635	322,587
Technical Reserves	5,106	8,774	14,163	21,807	31,348
Other Liabilities	370	761	468	533	587
Shareholders' Equity	882	1,691	2,775	4,343	6,069
Total Liabilities & Equity	50,216	87,583	152,992	246,317	360,591
Income Statement (TL mn)	2021	2022	2023E	2024E	2025E
Life insurance gross premiums	1,966	3,640	7,280	11,648	16,307
Investment Income	1,994	2,048	2,048	2,048	2,048
Gross Claims	-233	-531	-1,181	-1,889	-2,645
Net provisions	-2,678	-3,540	-5,497	-7,640	-9,547
Life insurance operating expenses	-542	-878	-1,537	-2,383	-3,455
Life insurance technical income/loss	363	485	681	1,199	1,984
Non-Life insurance technical income/loss	6	5	5	5	5
Fund management fee income	442	758	1,450	2,457	3,619
Management & Entrance fees	104	149	327	487	676
Net other income/loss	-31	-58	-89	-139	-194
Fund management expenses	-65	-116	-218	-344	-470
Pension operating expenses	-567	-1,160	-2,321	-3,713	-5,384
Pension technical income/loss	-117	-428	-851	-1,252	-1,754
Total technical income / loss	251	63	-164	-47	236
Net investment income	358	941	2,033	2,719	3,273
Other income/loss	6	29	32	36	41
Earnings before tax	615	1,033	1,902	2,709	3,550
Tax expense	-167	-199	-608	-813	-1,065
Net Income	448	834	1,294	1,896	2,485

Key Indicators	2021	2022	2023E	2024E	2025E
Life technical margin	18%	18%	10%	11%	13%
Gross premium growth	55%	85%	100%	60%	40%
Pension AUM growth	43%	72%	82%	62%	47%
Pension AUM size	42,816	73,634	134,310	217,569	319,553
Fund management fee margin	1.2%	1.3%	1.4%	1.4%	1.4%
Net income growth	54%	86%	55%	47%	31%
ROE	57%	65%	58%	53%	48%
P/E	7.6	5.6	7.7	5.2	4.0
P/BV	3.9	2.8	2.8	2.3	1.6

Source: Company financials, YKY estimates

Company Description

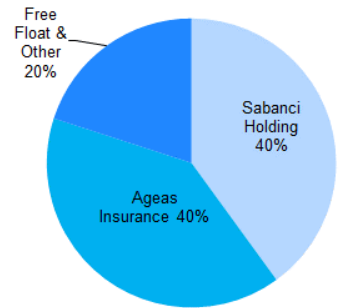
Ageas (Avivasa previously) was established in 2007 and is jointly owned by Avivasa International and Sabancı Holding. Avivasa serves around 2.5 million customers through multichannel distribution structure. The company's extensive distribution structure comprises solid bancassurance network of Akbank, the industry's largest direct sales team, and alternative distribution channels for corporate projects, agencies and telesales. During June 2021, Avivasa sold its stake in the Company to Ageas Insurance.

Ageas is the leader player (19.6%) in the market in terms of AuM and ranks fifth in the market in terms of number of participants (10% share) as of YE23. Total AuM including state contribution stands at TL136bn

Main catalysts: i) new supportive actions for pension, ii) rate cut cycle to support life business

Main risks: i) any macro volatility negatively impacting pension AuMs, exit rates, and new enrollments, and (ii) regulatory measures on the bancassurance business.

Ownership Structure



AKSİGORTA

Favorable 2024 outlook

We keep our 12M target share price for Aksigorta unchanged at TL8.2/sh. representing 34% upside potential, and maintain our BUY rating. Aksigorta is trading at 2.3x P/B and 5.9x P/E on our 2024 estimates. We do not incorporate a dividend from 2023 earnings since the solvency ratio is close to regulatory thresholds. Aksigorta has been a member of our Model Portfolio since Sept'23 and provided a 2% relative return vs. the XU100

- Solid premium growth to continue thanks to price hikes and benign GDP growth:** Gross Written Premium (GWP) growth is highly correlated with real GDP growth. We foresee c.3% real GDP growth in 2024, which should support insurers' premium growth. We foresee 65% GWP growth for 2024, also thanks to the inflationary environment in 1H24.
- Technical losses to recover in 2024:** We expect to observe lower claims, especially in the mandatory traffic insurance premiums (MTPL) and Motor Own Damage (MOD) segments, thanks to limited TL depreciation. The regulator has also hiked the monthly maximum price rate for MTPL to 10% per month (which was 2% in 2023) effective for January/February and 5% per month until May. The related rate will depend on the claims cost index starting from May.
- Investment income to boost profitability thanks to AuM expansion & elevated TL interest rates:** The company's AuM had reached almost TL9bn as of 3Q23. High TL deposit rates and a lower Türkiye CDS support investment gains.
- Solvency level remains inadequate for dividend pay-out:** Aksigorta's solvency ratio stands at c.100%. We do not incorporate any dividends from 2023 earnings in our estimates, similar to 2021/22. We incorporate a dividend pay-out starting from 2024 earnings.
- Main risks:** (i) regulatory measures, (ii) earlier than expected Central Bank rate cuts, (iii) Low solvency ratio

Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	-121	n.m.	717	n.m.	1,666	132%	2,569	54%
Book Value	1,304	24%	2,688	106%	4,354	62%	6,257	44%
P/E (x)	n.m.		9.8		5.9		3.8	
P/BV (x)	2.1		2.6		2.3		1.6	
EPS (TL)	-0.08		0.44		1.03		1.59	
Div. Yield (*)	0.0%		0.0%		0.0%		6.8%	
ROAE	-10.3%		29.1%		47.3%		48.4%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating **BUY**

Target Price **TL8.20**

Upside (Downside) **34%**

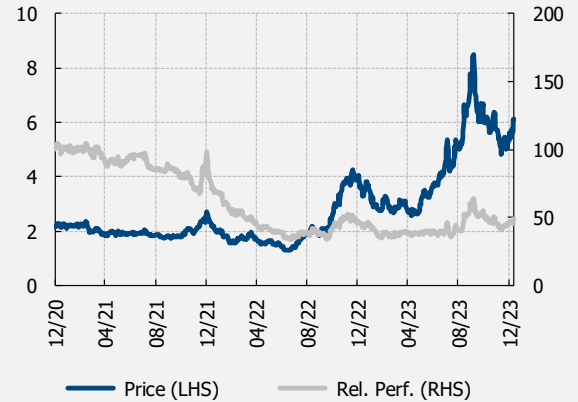
Share Data

Ticker	AKGRT.TI / AKGRT.IS
Close Price	TL6.12
Current MCap. (TL/US\$ mn)	9,865 / 329
Number of Shares (mn)	1612
Free Float	28%
3m Avg. Daily Turnover (TL/US\$ mn)	190.48 / 6.62

Trading Range (High / Low) (TL)

1-month	6.12 / 4.83
1-year	8.50 / 2.59
Ytd	6.12 / 5.25

Performance (TL)	Absolute	Relative
1-month	20%	17%
3-month	-12%	-9%
1-year	87%	13%
Ytd	17%	9%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Balance Sheet (TL mn)	2021	2022	2023E	2024E	2025E
Cash & Equivalents	2,194	5,149	5,882	7,586	10,213
Financial Investments	2,962	2,892	3,304	4,261	5,737
Receivables	1,548	2,867	5,770	9,520	13,804
Total Assets	7,388	9,370	13,944	20,450	28,181
Technical Reserves	4,074	6,840	11,285	16,364	20,455
Shareholders' Equity	1,049	2,234	2,688	4,354	6,257
Total Liabilities & Equity	7,388	9,370	13,944	20,450	28,181
Income Statement (TL mn)	2021	2022	2023E	2024E	2025E
Technical Income	3,360	5,000	8,674	14,501	21,670
Gross Written Premium	6,988	13,563	27,299	45,044	65,313
Net Written Premium	3,294	4,912	8,618	14,414	21,553
Technical Expense	-3,905	-6,638	-10,336	-15,882	-22,713
Gross Claims	-3,457	-6,663	-17,974	-28,756	-41,696
Net Claims	-3,050	-5,261	-7,880	-12,033	-17,447
Operating Expenses	-671	-1,056	-2,195	-3,446	-4,721
Other	-185	-320	-260	-403	-545
Technical Profit	-545	-1,637	-1,662	-1,382	-1,043
Net investment income	832	1,473	2,666	3,761	4,713
Other gain/loss	8	43	-252	0	0
Income before tax	295	-121	751	2,380	3,670
Tax expense	-105	0	-34	-714	-1,101
Net Income	189	-121	717	1,666	2,569
Key Ratios	2021	2022	2023E	2024E	2025E
GWP growth	33%	94%	101%	65%	45%
Technical profit growth	-	-	-	-	-
Net income growth	-57%	-	-	132%	54%
Expense Ratio	20%	21%	25%	24%	22%
Technical Margin	-17%	-33%	-19%	-10%	-5%
Combined ratio	116%	133%	119%	110%	105%
Investment Yield	22%	27%	33%	31%	28%
Leverage (x)	7.0	5.9	7.7	7.0	6.2
ROA	2.9%	-1.2%	4.2%	6.5%	7.4%
ROE	17%	-	29%	47%	48%
P/B	2.4	1.2	2.6	2.3	1.6
P/E	13.3	-22.9	9.8	5.9	3.8
P/GWP	0.4	0.2	0.3	0.2	0.2

Source: YKY Research, Company

Company Description

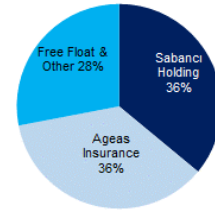
Aksigorta provides mainly non-life insurance services. The Company is 6th largest non-life insurer in Turkey with its 6.2% market share according to gross written premium (GWP) as of 9M23. Aksigorta's presence in motor own damage (MoD) and fire&natural disasters is stronger with respective market shares of 7% and 9%.

The Company's capital adequacy ratio (CAR) stands at c.100% as of 1H23.

Major Strengths: i) efficient opex optimisation, ii) effective pricing tools thanks to pioneer IT utilisation in the sector

Major Risks: i) regulatory measures, (ii) earlier than expected rate cuts by the Central Bank, (iii) Low solvency ratio

Ownership Structure



ANADOLU HAYAT

Solid profitability & comfortable solvency

We revise our 12M target share price for Anadolu Hayat to TL55/sh upward. (prev. 46TL/sh) and upgrade our recommendation to BUY (from UP). We raise our TP based on a better-than-expected pension business outlook. Our 12M target price offers 40% return potential. The stock is currently trading at 2024E 1.9x P/B and 4.7x P/E based on our estimates. We also calculate a 6% dividend yield from 2023 earnings.

- Life insurance business growth to decelerate.** We foresee the company registering 50% y/y life GWP growth in 2024 (vs. +100% in 2023E) due to elevated TL consumer loan rates in the banking sector.
 - Solid private pension AuM growth to be sustained in 2024:** Private pension AuM has grown c.80% y/y in 2023. We expect AuM growth of c.60% in 2024, driven by a more visible macroeconomic outlook coupled with regulatory actions supportive of the private pension business. Additionally, hikes in the minimum wage will support the company's fund management fees, which are proportional to the minimum wage.
 - Secular dividend payer with earnings growth momentum ahead:** We assume a 40% pay-out ratio for Anadolu Hayat from 2023 earnings, corresponding to a 6% dividend yield from 2023 earnings. We foresee 38% EPS growth in 2024 and 47% ROE. The company's solvency ratio is comfortable at 264% as of 1H23.
- Main risks:** i) any macro volatility negatively impacting pension AuMs, exit rates, and new enrollments, and (ii) regulatory measures on the bancassurance business.

Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	1,355	98%	2,601	92%	3,580	38%	4,316	21%
Book Value	3,389	83%	6,328	87%	8,867	40%	11,394	28%
P/E (x)	4.6		4.8		4.7		3.9	
P/BV (x)	1.9		2.0		1.9		1.5	
EPS (TL)	3.15		6.05		8.32		10.04	
Div. Yield (*)	6.5%		5.6%		6.2%		10.6%	
ROAE	51.7%		53.5%		47.1%		42.6%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL55.00
Upside (Downside)	40%

Share Data

Ticker	ANHYT.TI / ANHYT.IS
Close Price	TL39.30
Current MCap. (TL/US\$ mn)	16,899 / 563
Number of Shares (mn)	430
Free Float	17%
3m Avg. Daily Turnover (TL/US\$ mn)	33.14 / 1.16

Trading Range (High / Low) (TL)

1-month	39.40 / 35.16
1-year	53.50 / 14.77
Ytd	39.40 / 38.10

Performance (TL)	Absolute	Relative
1-month	8%	5%
3-month	-19%	-16%
1-year	115%	30%
Ytd	3%	-4%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Balance Sheet (TL mn)	2021	2022	2023E	2024E	2025E
Cash & Equivalents	423	1,302	2,023	833	1,069
Financial Investments	2,323	4,440	7,804	10,926	14,204
Life Insurance Investments	4,657	7,732	13,833	21,442	28,625
Pension Receivables	43,162	75,664	133,821	216,488	301,807
Other Assets	899	1,443	62	1,809	2,026
Total Assets	51,465	90,582	157,543	251,498	347,731
Pension payables	43,595	76,471	135,248	218,796	305,024
Technical Reserves	5,564	9,454	14,446	22,085	29,300
Other Liabilities	457	1,268	1,522	1,750	2,012
Shareholders' Equity	1,849	3,389	6,328	8,867	11,394
Total Liabilities & Equity	51,465	90,582	157,543	251,498	347,731
Income Statement (TL mn)	2021	2022	2023E	2024E	2025E
Gross premiums	1,968	3,521	7,042	10,563	14,788
Gross Claims	-592	-797	-1,818	-2,898	-4,301
Life insurance operating expenses	-428	-795	-1,676	-2,483	-3,444
Life insurance technical income/loss	310	430	975	1,545	2,280
Fund management fee income	450	727	1,351	2,173	3,086
Management & Entrance fees	140	218	304	448	581
Net other income/loss	-5	-29	-27	-19	0
Fund management expenses	-15	-28	-53	-85	-120
Pension operating expenses	-376	-754	-1,282	-2,115	-3,035
Pension technical income/loss	193	141	293	403	513
Total technical income / loss	503	571	1,268	1,948	2,793
Net investment income	410	1,126	2,339	3,166	3,373
Other income/loss	-31	1	-95	0	0
Earnings before tax	880	1,692	3,512	5,114	6,166
Tax expense	-194	-337	-911	-1,534	-1,850
Net Income	686	1,355	2,601	3,580	4,316
Key Indicators	2021	2022	2023E	2024E	2025E
Life technical margin	16%	12%	14%	15%	15%
Gross premium growth	17%	79%	100%	50%	40%
Pension AUM growth	42%	75%	78%	62%	39%
Pension AUM size	43,012	75,320	133,821	216,488	301,807
Fund management fee margin	1.3%	1.3%	1.3%	1.3%	1.2%
Net income growth	32%	98%	92%	38%	21%
ROE	40%	52%	54%	47%	43%
P/E	6.2	4.6	4.8	4.7	3.9
P/BV	2.3	1.9	2.0	1.9	1.5

Source: Company financials, YKY estimates

Company Description

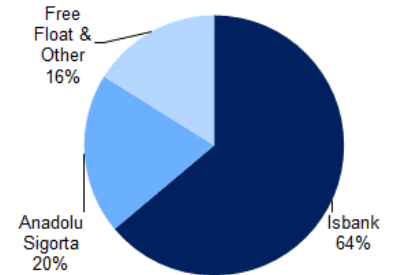
Being a subsidiary of Isbank, Anadolu Hayat was founded as the first life insurance company in 1990 and was transformed and reorganized into a private pension company in 2003 upon establishment of the private pension system in Turkey. The company mainly utilizes bank branches for sales network through 4 banks (Isbank, Anadolubank, TSKB and Bankpozitif) at 1,396 branches. Direct sales, agents, brokers and alternative delivery channels constitute the rest of its distribution network.

Anadolu Hayat ranks as the third player in the pension market in terms of pension AuM (17.8% share) as of YE23. AuM including state contribution stands at TL127bn while number of participants reached 1.4 million.

Main catalysts: i) new supportive actions for pension, ii) rate cut cycle to support life business

Main risks: i) any macro volatility negatively impacting pension AuMs, exit rates, and new enrollments, and (ii) regulatory measures on the bancassurance business.

Ownership Structure



TÜRKİYE SİGORTA

Supportive macro-economic environment persists

We fine-tune our estimates for Türkiye Sigorta and revise our 12M TP to TL62/sh. (prev. TL49/sh.) representing 39% upside potential. Our recommendation is upgraded to BUY (from HOLD) thanks to a favorable environment. Türkiye Sigorta is trading at 2.3x P/B and 4.5x P/E on our 2024 estimates with 66% ROE. We foresee solid profitability prevailing in 2024. We pencil in 4% dividend yield from 2023 earnings.

- Solid premium growth to continue in 2024:** Gross Written Premium (GWP) growth is highly correlated with real GDP growth. We foresee c.3% real GDP growth in 2024, which should support insurers' premium growth. We foresee 65% GWP growth in 2024, boosted also by elevated inflation during 1H24.
- Traffic segment claims to normalize in 2024 thanks to regulatory actions:** Türkiye Sigorta's market shares in the MTPL and MoD segments are 12% (2nd) and 9% (4th), respectively, as of 9M23. We expect a gradual recovery in the technical results of these segments in 2024. The company's stronger presence in non-traffic segments should also support profitability.
- Elevated investment income gains to continue:** The investment portfolio of Türkiye Sigorta is TL-weighted. Total assets under management reached TL43bn as of 3Q23. High TL deposit rates should continue to support investment gains in 2024.
- Secular dividend payer with comfortable capital ratio:** We assume a 30% pay-out ratio for Türkiye Sigorta (2021: 50%, 2022: 17%) corresponding to 4% dividend yield from 2023 profit. The company's solvency ratio is at a comfortable level of 172%. We foresee Türkiye Sigorta posting 77% EPS growth and generating 66% ROE in 2024.
- Main risks:** (i) macro volatility (lower GDP growth could jeopardize premiums, (ii) regulatory measures, (iii) earlier than expected rate cuts.

Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net Income	941	-11%	6,518	n.m.	11,517	77%	14,517	26%
Book Value	4,631	10%	12,783	176%	22,345	75%	32,255	44%
P/E (x)	8.1		3.7		4.5		3.6	
P/BV (x)	1.6		1.9		2.3		1.6	
EPS (TL)	0.81		5.61		9.92		12.50	
Div. Yield (*)	7.7%		0.5%		3.8%		8.9%	
ROAE	21.3%		67.9%		65.6%		53.2%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL62.00
Upside (Downside)	39%

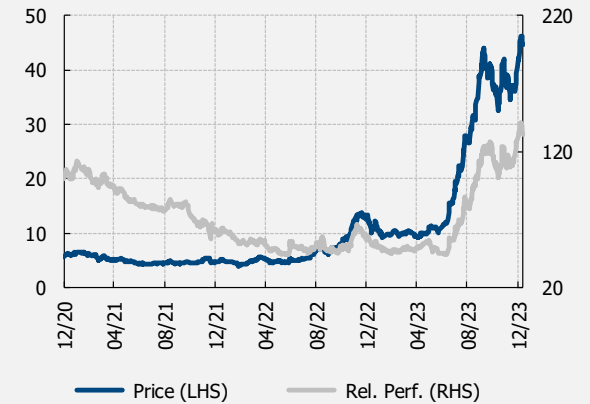
Share Data

Ticker	TURSG.TI / TURSG.IS
Close Price	TL44.68
Current MCap. (TL/US\$ mn)	51,897 / 1,729
Number of Shares (mn)	1161.523363
Free Float	18%
3m Avg. Daily Turnover (TL/US\$ mn)	202.31 / 7.04

Trading Range (High / Low) (TL)

1-month	46.30 / 34.50
1-year	46.30 / 9.06
Ytd	46.30 / 40.56

Performance (TL)	Absolute	Relative
1-month	26%	22%
3-month	4%	8%
1-year	325%	157%
Ytd	10%	3%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Balance Sheet (TL mn)	2021	2022	2023E	2024E	2025E
Cash & Equivalents	6,104	9,034	12,372	18,271	25,706
Financial Investments	2,174	8,606	11,786	17,404	24,486
Receivables	3,377	4,536	10,776	17,780	25,782
Other Assets	2,697	6,024	13,784	19,916	20,065
Total Assets	14,351	28,199	48,718	73,372	96,038
Technical Reserves	6,739	14,726	24,299	34,504	43,130
Other Liabilities	3,392	7,052	11,636	16,523	20,654
Shareholders' Equity	4,220	6,421	12,783	22,345	32,255
Total Liabilities & Equity	14,351	28,199	48,718	73,372	96,038

Source: YKY Research, Company

Income Statement (TL mn)	2021	2022	2023E	2024E	2025E
Technical Income	4,273	7,032	22,086	36,414	54,189
Gross Written Premium	11,750	25,173	59,810	98,686	143,095
Net Written Premium	4,101	6,893	21,848	36,050	53,703
Technical Expense	-4,092	-9,161	-22,509	-34,920	-48,799
Gross Claims	-3,770	-6,916	-28,823	-45,585	-63,236
Net Claims	-3,114	-7,263	-17,715	-27,105	-37,601
Operating Expenses	-957	-1,869	-4,757	-7,777	-11,161
Other	-22	-29	-38	-38	-38
Technical Profit	181	-2,129	-424	1,494	5,390
Net investment income	1,406	3,159	9,434	14,960	15,348
Other gain/loss	-184	235	-535	0	0
Income before tax	1,403	1,266	8,475	16,453	20,738
Tax expense	-345	-324	-1,957	-4,936	-6,221
Net Income	1,058	941	6,518	11,517	14,517

Key Ratios	2021	2022	2023E	2024E	2025E
GWP growth	32%	114%	138%	65%	45%
Technical profit growth	-75%	-1277%	-80%	-452%	261%
Net income growth	-8%	-11%	592%	77%	26%
Expense Ratio	23%	27%	22%	22%	21%
Technical Margin	4%	-31%	-2%	4%	10%
Combined ratio	96%	130%	102%	96%	90%
Investment Yield (dividend+FX+interest)	20%	27%	29%	26%	21%
Leverage (x)	3.4	4.4	3.8	3.3	3.0
ROA	8.3%	4.4%	16.9%	18.9%	17.1%
ROE	28%	18%	68%	66%	53%
P/B	1.5	1.2	1.9	2.3	1.6
P/E	6.2	8.1	3.7	4.5	3.6
P/GWP	0.6	0.3	0.4	0.5	0.4

Source: YKY Research, Company

Company Description

Türkiye Sigorta was established in August 2020 with the merger of three mid-size state-owned insurance companies; Güneş Sigorta, Halk Sigorta and Ziraat Sigorta and became the largest player in Turkish non-life insurance market with a 13.4% overall market share based on gross written premium as of 9M23.

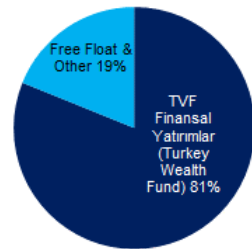
Türkiye Sigorta is essentially engaged in non-life insurance while its exposure to life & pension businesses is mainly coming from its 7.4% ownership at Türkiye Emeklilik&Hayat. Türkiye Hayat & Emeklilik is the largest pension company in terms of number of participants (second in terms of AuM) and life insurer in terms of GWP production.

The Company's capital adequacy ratio (CAR) stands at 172% as of 1H23.

Major Strengths: i) market leader positioning, ii) leader bancassurance distribution network

Major Risks: i) macro-economic risks, ii) regulatory actions, (iii) earlier than expected rate cuts

Ownership Structure



ÜNLÜ Yatırım Holding

Prime beneficiary of potential foreigner interest to Türkiye

We keep our 12M target share price for ÜNLÜ unchanged at TL23/sh. and keep our HOLD recommendation. Our 12M target price offers 39% return potential. The stock is currently trading at 1.6x P/B and 4.4x P/E based on our 2024 estimates. Our projections exclude any potential gains from the still-awaited new investment banking license, which could act as a strong. We did not incorporate potential negative impact of inflation accounting due to uncertainties.

- **Core strengths to surface more in 2024:** We expect to observe higher foreign interest in Turkish assets in 2024. We consider ÜNLÜ a prime beneficiary of a revival in foreign inflow to Türkiye thanks to its strong market positioning and record of accomplishments. We foresee the Company's ROE at 42% in 2024 (vs. 38% in 2023E). We foresee the NPL business remaining resilient during 1H24 amid the inflationary environment&high minimum wage hike, while we expect the remaining operational revenue contributions to accelerate during 2H24.
- **Diversified revenue base:** Corporate finance, institutional sales, wealth management, NPL management, and Treasury operations comprised 7%, 12%, 25%, 37%, and 20% of total revenues, respectively, as of the first nine months of 2023. We foresee corporate finance and institutional sales revenue acceleration during 2024 based on our expectation of higher foreign interest in Turkish assets.
- **Potential investment banking license:** ÜNLÜ applied to the BRSA in September 2021 for an 'investment banking license.' Once granted, the new license should allow ÜNLÜ to leverage its balance sheet better and further widen its product portfolio, thereby augmenting its growth outlook. Our projections, for now, exclude any potential gains.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Net income	269	237%	414	54%	659	59%	948	44%
Book Value	894	47%	1,310	46%	1,880	42%	2,711	46%
P/E (x)	4.3		5.7		4.4		3.1	
P/BV (x)	1.3		1.8		1.8		1.1	
EPS (TL)	1.54		2.37		3.78		5.40	
Div. Yield (%)	0.0%		0.7%		3.5%		3.6%	
ROE	35.8%		37.6%		41.6%		41.4%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL23.00
Upside (Downside)	39%

Share Data

Ticker	UNLU.TI / UNLU.IS
Close Price	TL16.56
Current MCap. (TL/US\$ mn)	2,898 / 97
Number of Shares (mn)	175
Free Float	34%
3m Avg. Daily Turnover (TL/US\$ mn)	23.20 / 0.81

Trading Range (High / Low) (TL)

1-month	17.10 / 14.61
1-year	24.00 / 6.99
Ytd	16.95 / 15.80

Performance (TL)	Absolute	Relative
1-month	-3%	-6%
3-month	-17%	-14%
1-year	101%	22%
Ytd	5%	-2%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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P&L (mn TL)	2021	2022	2023E	2024E	2025E
Net Revenues	300	692	1,260	2,085	3,236
y/y growth	24%	131%	82%	66%	55%
Corporate Finance	41	71	105	179	339
-Stake in Total	14%	10%	8%	9%	10%
-Annual Growth	15%	75%	47%	70%	90%
Institutional Sales	36	87	140	280	532
-Stake in Total	12%	13%	11%	13%	16%
-Annual Growth	37%	143%	62%	100%	90%
Wealth & Asset Management	56	152	305	519	830
-Stake in Total	19%	22%	24%	25%	26%
-Annual Growth	38%	171%	100%	70%	60%
NPL	142	287	460	721	1,012
-Stake in Total	47%	41%	37%	35%	31%
-Annual Growth	23%	102%	60%	57%	40%
Treasury & Other	26	95	250	388	523
-Stake in Total	8%	14%	20%	19%	16%
Operating Expenses	246	484	967	1,596	2,314
y/y growth	32%	97%	100%	65%	45%
EBIT	55	209	293	490	922
y/y growth	-2%	282%	40%	67%	88%
Net investment&finance income/expense	56	142	275	400	356
Pretax income	110	351	568	890	1,278
Net Profit	80	269	414	659	946
Net Profit margin	26.5%	38.8%	32.9%	31.6%	29.2%
Net Profit y/y growth	30%	238%	54%	59%	44%

Balance Sheet (mn TL)	2021	2022	2023E	2024E	2025E
Total Assets	939	1,716	2,818	4,309	6,237
Cash and Cash Equivalents	271	264	1,146	1,805	2,750
Financial Investments	107	505	334	485	606
NPL Portfolios	271	270	198	396	731
Total Liabilities	332	822	1,508	2,450	3,526
Total Financial Debt	188	609	396	722	1,152
Equity	607	894	1,310	1,860	2,711

KPIs	2021	2022	2023E	2024E	2025E
ROE	19%	36%	38%	42%	41%
ROA	10.3%	20.2%	18.3%	18.5%	17.9%
P/E	12.1	4.3	5.7	4.4	3.1
P/B	1.6	1.3	1.8	1.6	1.1
Leverage (x)	1.5	1.9	2.2	2.3	2.3
Cost / Income	82%	70%	77%	77%	72%

Source: YKY Research, KAP

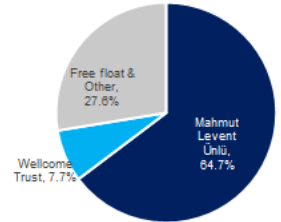
Company Description

ÜNLÜ & Co was established in 1996 and is one of the longest standing non-bank investment houses in Turkey. The Company has grown its presence in the Turkish M&A market eye-catchingly since its foundation thanks to its prominent management, being the market leader in the Turkish M&A market by the number of transactions (transactions over US\$30mn).

Major Strengths: i) Pioneer/leader of M&A business & leading position at major operations, ii) diversified and complementary business operations, iii) will be the main beneficiary of potential foreign interest in Turkish capital markets

Major Risks: (i) Regulatory risks, (ii) Macro-economic and geopolitical risks curbing foreigners' interest for Turkish assets, (iii) Potential share sale of Wellcome Trust, (iv) Inflation accounting impact

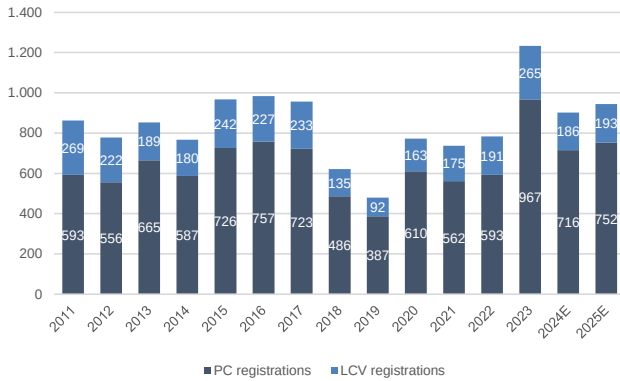
Ownership Structure



A likely downturn following a record-breaking 2023

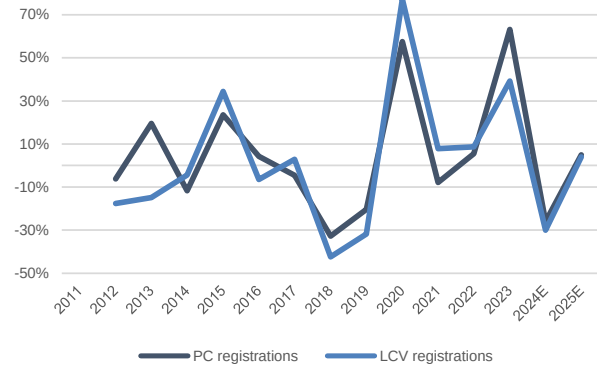
2023 has been a record-breaking year for domestic automotive sales. Accordingly, PC sales closed the year with a remarkable performance of 967.3k units sold, up by 63%, while LCV sales were up by 39% with 265.3k unit sales. Total LV sales in 2023 exceed 1.2mn levels, surging by 57% y/y. The impressive demand was attributable to improvement in supply-side issues with easing the parts shortage, pent-up demand of 5 years, and the attractiveness of car purchases as an FX-protected hedge against inflation in the low-interest rate environment of 1H23. The industry's export performance was also quite strong, with 15% growth on the back of positive momentum in the European market, which derived from 3-year pent-up demand arising from the parts shortage. Recall that the European automotive sector (EU+UK+EFTA) grew by 16% in PC in and 12% in LCV in 1H23 based on latest data.

Graph 1: Domestic LV registrations – 000', unit



Source: ODMD, YKY Research

Graph 2: LV growth by years



Source: ODMD, YKY Research

We think that used car prices are a key factor to watch in the industry. Note that the second-hand market is 7 – 8 times larger than Türkiye's brand-new vehicle market. Recall that in 2023, the gap between used and brand-new cars narrowed due to a lack of vehicle availability amid huge demand. We have seen some degree of normalization in prices thus far; however, prices remain far from normal levels that decrease by 10% each year. Hence, this may support the demand for brand-new vehicles. However, we may see a shift back to second-hand vehicle purchases with the normalization of the gap between used and brand-new vehicle prices through 1H24. Fleet purchases, smaller than in previous years, may also recover as leasing becomes more favorable for firms amid the ongoing high-interest rate environment. Finally, lower-than-expected depreciation of the TL and larger promotions may support demand in the industry. Considering these, we made a slight update to sales forecasts from 850k unit sales to 900k unit sales, corresponding to c.27% y/y contraction.

Otokar <OTKAR TI> has announced its non-consolidated figures for 2023. Accordingly, the company has achieved 5.1k unit sales, up 44% y/y on the back of strong bus category performance with a 68% y/y rise in export sales. Also, with the addition of new contracts, armored vehicle sales improved to 305 units, up 43% y/y, which is also crucial in terms of margin performance. Overall, we are more positive regarding the armored vehicle business for 2024 and thanks to the rising backlog and the potential for new contract wins, we expect the category to be the main catalyst.

The Turkish tractor market also performed very well with an 18% volume growth, primarily due to factors such as favorable loan rates, which feature a 50% reduction for locally manufactured tractors and 25% for imported tractors provided by Ziraat Bank. With the uptrend in loan rates and the fulfilled demand in 2023, we expect a 20% contraction in the market. This may also bring down tractor prices in USD terms and lead to margin normalization.

FORD OTOSAN

Solid top-line growth outlook

We update our figures for FROTO based on our new macro assumptions while retaining our BUY recommendation and slightly reducing our TP for the stock from TL1,310 (EUR45.3) to TL1,220 (EUR37.1). Given its widening footprint in the European auto market with rising production capacity, we continue to like the growth story of the Company. Also, upon completion of the transfer of the Ford Courier and ramp-up of the new Ford Custom, we estimate sales volume performance to be supported in 2024. For now, we project a 12% rise in total sales volume despite our expectation of c.30% contraction in the Turkish auto market in 2024 after a record-breaking 2023. Still, thanks to 80% of the company's sales being generated in the int'l market, we anticipate FROTO being less affected by a domestic market downturn. On our estimates, the FROTO sharetrade at an attractive multiple of 6.3x EV/EBITDA corresponding to c.15% discount compared to its 3-year historical average, which we find as unwarranted given its strong growth outlook, robust balance sheet (2023e: 1.0x net debt/EBITDA), and resilient FCF margin (2024e: 3%).

- We are forecasting 69% y/y top-line growth in 2024.** We expect FROTO to post 28% y/y sales volume growth in 2023 (domestic: 32%, int'l: 27%). For 2024, following the rising effective annual production capacity we forecast 9% sales volume growth. Accordingly, we estimate 69% y/y top-line growth an 8% rise in revenues in EUR terms.
- Relatively lesser margin normalization after supply-demand imbalance.** Following the moderation in demand environment in the domestic market, we expect EBITDA margin to fall back to the previous years levels. On the other hand, the increasing share of electric vehicle models in total sales may also pull down consolidated profitability for the upcoming years. Still, we expect the decline in margins to remain relatively minimal, mainly due to the low share of domestic sales.
- Stronger-than-expected TL may pose some risk to growth.** After the tightening in monetary policy, a stronger-than-expected TL scenario may pressure growth and margin performance as the company is Türkiye's top exporter.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	171,797	142%	333,548	94%	562,619	69%	793,052	41%
EBITDA	19,727	108%	37,631	91%	53,118	41%	74,020	39%
Net Income	18,614	111%	34,997	88%	43,833	25%	60,897	39%
P/E (x)	6.1		7.2		6.3		4.5	
EV/EBITDA (x)	7.1		7.6		6.3		4.7	
EV/Sales (x)	0.8		0.9		0.6		0.4	
EPS (TL)	53.0		99.7		124.9		173.5	
Div. Yield (*)	5.4%		5.8%		9.3%		14.6%	
FCF Yield	2.0%		-0.1%		2.6%		1.6%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL1,220.00
Upside (Downside)	55%

Share Data

Ticker	FROTO.TI / FROTO.IS
Close Price	TL787.00
Current MCap. (TL/US\$ mn)	276,166 / 9,201
Number of Shares (mn)	350.91
Free Float	18%
3m Avg. Daily Turnover (TL/US\$ mn)	934.80 / 32.59

Trading Range (High / Low) (TL)

1-month	801.50 / 728.00
1-year	931.17 / 445.37
Ytd	787.00 / 739.50

Performance (TL)	Absolute	Relative
1-month	-1%	-4%
3-month	-6%	-3%
1-year	76%	6%
Ytd	6%	0%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	71,101	171,797	333,548	562,619	793,052
Gross Profit	11,154	23,941	47,697	69,483	96,752
Opex	-2,745	-6,109	-13,331	-21,471	-29,658
EBITDA (*)	9,464	19,727	37,631	53,118	74,020
Depreciation	1,054	1,895	3,264	5,106	6,925
Operating Income	8,410	17,832	34,366	48,012	67,094
Financial Income/Expense	-716	-3,503	-12,016	-12,353	-17,110
Net Other Income/Expense	993	1294	10980	7314	10310
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	8,687	15,623	33,330	42,974	60,294
Tax	114	2,991	1,667	859	603
Minority Interest/Other	0	0	0	0	0
Net Income	8,801	18,614	34,997	43,833	60,897
Balance Sheet					
Cash and Liquid Assets	14,174	10,115	32,203	24,539	22,145
Inventories	5,269	13,854	26,784	46,207	65,243
Accounts Receivable	11,407	25,851	50,190	84,660	119,334
Other Current Assets	1,964	5,305	8,820	13,704	17,434
Total Current Assets	32,814	55,125	117,997	169,109	224,155
Fixed Assets (**)	6,636	27,096	45,847	65,431	82,842
Financial and Equity Investments	50	146	153	161	161
Other Non-Current Assets (**)	3,293	13,686	23,129	34,436	43,799
Total Non-Current Assets	9,979	40,928	69,130	100,028	126,802
Total Assets	42,793	96,052	187,127	269,137	350,957
Short-Term Debt	8,257	13,219	29,278	39,589	47,918
Accounts Payable	11,379	30,146	58,282	100,545	141,968
Other Current Liabilities	1,147	2,841	2,841	2,841	2,841
Total Current Liabilities	20,782	46,206	90,401	142,975	192,727
Long-Term Debt	10,799	24,700	37,864	42,782	47,622
Other Non-Current Liabilities	1,063	3,744	6,365	9,007	11,511
Total Non-Current Liabilities	11,862	28,444	44,229	51,789	59,133
Minority Interest	0	0	0	0	0
Total Shareholders' Equity	10,149	21,402	52,496	74,373	99,097
Total Liabilities and Equity	42,793	96,052	187,127	269,137	350,957
Cash Flow Statement					
Operating Cash Flow	5,314	16,907	30,021	39,553	51,805
Investing Cash Flow	-2,369	-9,632	-21,940	-6,179	-33,727
Financing Cash Flow	11,362	21,544	31,845	17,870	15,673
Dividends Paid	-3,576	-6,562	-15,444	-25,812	-40,348
Free Cash Flow	571	2,267	-317	7,298	4,514
Net Debt	4,882	27,804	34,939	57,831	73,395
Key Ratios					
Gross Margin	15.7%	13.9%	14.3%	12.4%	12.2%
EBITDA Margin	13.3%	11.5%	11.3%	9.4%	9.3%
Net Income Margin	12.4%	10.8%	10.5%	7.8%	7.7%
ROE	102.4%	118.0%	94.7%	69.1%	70.2%
Sales Growth	44%	142%	94%	69%	41%
EBITDA Growth	79%	108%	91%	41%	39%
Earnings Growth	110%	111%	88%	25%	39%
Net Debt-to-Equity (x)	0.5	1.3	0.7	0.8	0.7
Net Debt-to-EBITDA (x)	0.5	1.4	0.9	1.1	1.0

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Ford Otosan was established in 1959 in Ankara. The Company is Ford Europe's largest commercial vehicle production center, with a yearly production capacity of 746,500 vehicles, 436,500 engines, and 140,000 powertrains as of 2023.

Ford Otosan is the goods export champion of Türkiye for 8 consecutive years.

Ford Otosan operates at 4 main centers with its Gölcük and Yeniköy Plants in Kocaeli, Eskişehir Plant in Eskişehir, Sancaktepe R&D Center and Spare Parts Warehouse in İstanbul and Craiova Plant in Romania.

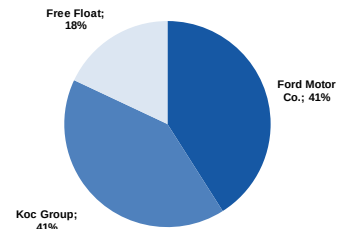
The company produces 75% of Ford Motor Company's LCVs sold in Europe while producing Ford's bestselling LCVs such as the Transit and Custom, as well as Ford's bestselling PC in Europe, the Puma.

Potential catalysts and risks

Potential catalysts include; i) stronger demand; ii) TL depreciation; iii) further expansion in Ford Motor Company's network.

Potential risks include; i) competition, ii) delay in capacity expansion; iii) stronger than expected TL.

Ownership Structure



OTOKAR

A great outperformance in 2023

We are transferring our coverage for OTKAR. We have a Hold recommendation for the stock with a TP of TL600/share (previous Under Review). The company successfully increased its top-line and EBITDA c.150% and c.190% in 9M23, supported by the acceleration in defence contracts. Recall that the company posted a non-consolidated sales volume growth of 44%, and its armoured vehicle sales grew by 43%, suggesting a glowing performance for 4Q. Overall, we expect the company to end the year on a high note. Also, the recent armoured vehicle contract award amounting to c.USD136mn is also materially positive for both revenue and margins. Despite favouring the stock's short-to-mid-term growth outlook, which may be supported by higher global defence spending, we opt. to remain cautious regarding the stock for now, considering its huge 51% outperformance in 2023.

- **Accelerated defence contracts.** The backlog was at c.USD265mn levels in 3Q23; on top of that, the company signed a contract worth approximately c.USD136 million for 6x6 tactical armoured vehicles to be exported to Estonia. As we see in 4Q sales figures, we think that this will be one of the growth driver in 2024.
- **Indebtedness remains a concern.** As of 9M23, OTKAR's net debt stood at TL7bn, with 4.1x net debt/EBITDA, which will eventually decline upon receipt of advance payments from the recently signed contract. Still, considering the current loan rates, we foresee the financial expense to likely soar, pressuring net earnings for 2024.
- **We prefer caution at this stage.** An unstable geopolitical environment may trigger further military spending for 2024. This would unleash further opportunities for Otokar. However, considering its current multiples, we think this prospect may already be priced to some degree. Hence, even though we welcome the improvement in the financials, we prefer to keep our recommendation at "HOLD" until we see further acceleration in contract additions – which we don't think a big surprise.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	9.604	113%	22.765	137%	39.468	73%	52.526	33%
EBITDA	1.244	36%	3.405	174%	7.275	114%	9.944	37%
Net Income	1.239	19%	1.362	10%	3.714	173%	5.206	40%
P/E (x)	10,0		24,7		13,8		9,9	
EV/EBITDA (x)	14,7		12,9		9,1		7,0	
EV/Sales (x)	1,9		1,9		1,7		1,3	
EPS (TL)	51,6		56,7		154,8		216,9	
Div. Yield (*)	4,8%		0,0%		0,0%		0,0%	
FCF Yield	-15,0%		-3,8%		-2,3%		1,6%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL600.00
Upside (Downside)	40%

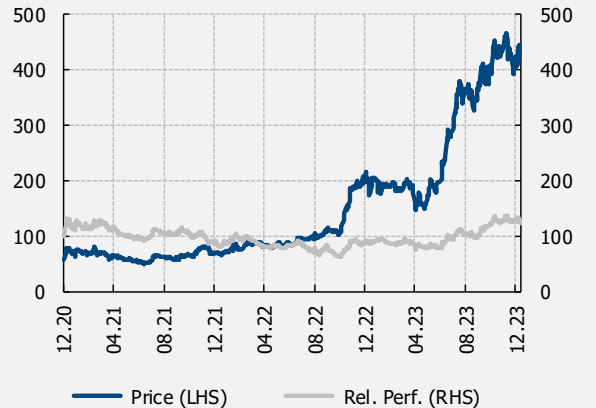
Share Data

Ticker	OTKAR.TI / OTKAR.IS
Close Price	TL427.75
Current MCap. (TL/US\$ mn)	51,330 / 1,710
Number of Shares (mn)	120
Free Float	27%
3m Avg. Daily Turnover (TL/US\$ mn)	208.74 / 7.32

Trading Range (High / Low) (TL)

1-month	445.50 / 393.50
1-year	467.00 / 148.10
Ytd	445.50 / 406.75

Performance (TL)	Absolute	Relative
1-month	-4%	-7%
3-month	4%	7%
1-year	141%	46%
Ytd	1%	-6%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	4.509	9.604	22.765	39.468	52.526
Gross Profit	1.717	3.044	7.512	14.406	19.435
Opex	909	1.980	4.392	7.539	10.029
EBITDA (*)	913	1.244	3.405	7.275	9.944
Depreciation	105	180	285	408	538
Operating Income	807	1.064	3.120	6.866	9.406
Financial Income/Expense	-280	-806	-3.335	-5.782	-7.695
Net Other Income/Expense	377	819	1563	2706	3601
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	905	1.077	1.348	3.790	5.312
Tax	137	162	13	-76	-106
Minority Interest/Other	0	0	0	0	0
Net Income	1.042	1.239	1.362	3.714	5.206
Balance Sheet					
Cash and Liquid Assets	645	1.731	4.533	3.376	675
Inventories	1.426	3.870	8.692	14.282	18.858
Accounts Receivable	1.761	4.159	7.484	12.976	17.269
Other Current Assets	128	852	1.447	2.098	2.557
Total Current Assets	3.960	10.612	22.156	32.731	39.358
Fixed Assets (**)	1.136	1.957	2.997	3.989	5.001
Financial and Equity Investments	182	241	80	116	141
Other Non-Current Assets (**)	711	1.342	1.762	2.220	2.543
Total Non-Current Assets	2.029	3.540	4.838	6.325	7.686
Total Assets	5.990	14.152	26.994	39.056	47.044
Short-Term Debt	1.117	6.247	12.872	16.248	16.214
Accounts Payable	555	2.217	4.597	7.553	9.973
Other Current Liabilities	1.180	1.534	2.608	3.781	4.594
Total Current Liabilities	2.852	9.998	20.076	27.582	30.781
Long-Term Debt	1.261	1.301	2.071	2.338	2.630
Other Non-Current Liabilities	379	751	1.276	1.851	2.256
Total Non-Current Liabilities	1.641	2.051	3.347	4.188	4.887
Minority Interest	0	0	0	0	0
Total Shareholders' Equity	1.497	2.103	3.571	7.285	11.377
Total Liabilities and Equity	5.990	14.152	26.994	39.056	47.044
Cash Flow Statement					
Operating Cash Flow	1.075	-410	583	1.460	3.765
Investing Cash Flow	-844	-1.178	-1.542	-1.829	-1.812
Financing Cash Flow	5.327	7.767	4.169	833	-18.438
Dividends Paid	-400	-600	0	0	0
Free Cash Flow	2	-1.872	-1.288	-1.194	804
Net Debt	1.734	5.816	10.410	15.210	18.169
Key Ratios					
Gross Margin	38,1%	31,7%	33,0%	36,5%	37,0%
EBITDA Margin	20,2%	12,9%	15,0%	18,4%	18,9%
Net Income Margin	23,1%	12,9%	6,0%	9,4%	9,9%
ROE	83,2%	68,8%	48,0%	68,4%	55,8%
Sales Growth	55%	113%	137%	73%	33%
EBITDA Growth	36%	36%	174%	114%	37%
Earnings Growth	68%	19%	10%	173%	40%
Net Debt-to-Equity (x)	1,2	2,8	2,9	2,1	1,6
Net Debt-to-EBITDA (x)	1,9	4,7	3,1	2,1	1,8

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

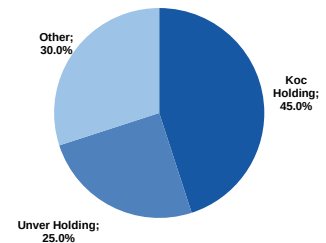
Otokar, founded in 1963, manufactures buses/minibuses for passenger transportation, trucks for cargo transportation, and tactical wheeled/tracked armored vehicles for the defense industry.

With more than 3,000 employees, a production area of 552,000 m2 and a sales and service network of nearly 300, the company operates in more than 75 countries with its products and intellectual property rights.

The company's current annual production capacity: 5,300 buses/minibuses, 2,000 tactical vehicles, 1,600 trucks/light trucks, 700 tactical armored vehicles.

The company's backlog amounted to TRY7.2 billion as of 9M23. After Q3, the company signed an agreement worth c.USD136 million for the export of 6x6 tactical armored vehicles, maintenance equipment and training services to Estonia. We expect this agreement to contribute to the financials in 2024. Any further acceleration in orders may also reduce indebtedness which we think main burden of the Company.

Ownership Structure



Tofas

TP reduced after the delay in deal

We maintain our BUY rating for Tofas but lower our TP from EUR115 to EUR10.0 on our new macro assumptions and reduced figures 2024YE related to the delay in Stellantis Otomotiv acquisition. The Stellantis Automotive deal remains to be the most important issues to follow in 2024. As it can be recalled, the competition authority had put the acquisition under final review in accordance to the Law of the Protection of the Competition and the transaction, which was previously expected to be completed in 1Q24, was extended to an unspecified period. We currently base our calculation on a scenario of the deal finalizing mid-year and expect a c.TL48bn revenue contribution from the acquisition (26% of our 2024 net sales forecast). Incorporated with that, we now estimate 81% y/y net sales and 41% y/y EBITDA growth in 2024. Taking this date as a baseline, we estimate that each month of delayed approval leads to a c.5% reduction in our 2024 net sales forecasts. On our figures, Tofas shares trade at a 5.2x P/E and 4.6x EV/EBITDA multiples. The company's cash-rich balance sheet (2023e: TL16bn net cash), low valuation multiples, and organic/inorganic growth potential allow us to keep our recommendation at BUY despite the aforementioned risks related to the acquisition.

- **Solid set of 2023 results, but 2024 depends on Stellantis Otomotiv deal.** Following the record-high sales volume of 1.2mn in the domestic LV market in 2023, we expect Tofas to increase its EBITDA by 52% y/y and double its bottom-line. For 2024, we reduce our revenue forecasts by 23% to 82% top-line growth and by 18% to 41% for EBITDA, given the delayed finalization of the deal. On K0 side, we estimate a limited c.3% revenue contribution for 2024 expecting its full year impact to surface in 2025
- **Regarding competition authority.** Considering the huge size of the acquisition and ambiguity over timing, the forecasts are prone to material deviations. As the Stellantis merger was approved globally in 2020, we believe it is more likely that this transaction will also completed; therefore, we included the proceeds will be generated from the deal in our 2024 forecasts. Nevertheless, investors should be aware that it is currently impossible to estimate the transaction's finalization date and that considerable risks are involved.
- **Risks:** i) Weaker demand, ii) higher retreat in EBITDA/vehicle, iii) competition, iv) further delay/cancel of Stellantis Otomotiv agreement

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	66,793	119%	102,296	53%	184,650	81%	352,310	91%
EBITDA	11,270	95%	17,124	52%	24,110	41%	39,019	62%
Net Income	8,562	161%	17,143	100%	22,246	30%	37,756	70%
P/E (x)	5.3		6.6		5.2		3.0	
EV/EBITDA (x)	3.5		5.7		4.6		2.7	
EV/Sales (x)	0.6		1.0		0.6		0.3	
EPS (TL)	17.1		34.3		44.5		75.5	
Div. Yield (*)	7.1%		2.6%		9.0%		17.4%	
FCF Yield	-11.2%		8.5%		-3.1%		16.2%	

(*) yields are based on payment dates

Source: Company Financials. YKY Research

Rating

BUY

Target Price

TL330.00

Upside (Downside)

44%

Share Data

Ticker	TOASO.TI / TOASO.IS
Close Price	TL229.60
Current MCap. (TL/US\$ mn)	114,800 / 3,825
Number of Shares (mn)	500
Free Float	24%
3m Avg. Daily Turnover (TL/US\$ mn)	978.36 / 34.17

Trading Range (High / Low) (TL)

1-month	233.70 / 206.00
1-year	303.70 / 136.67
Ytd	229.60 / 210.00

Performance (TL)

Absolute

Relative

1-month	4%	1%
3-month	-20%	-18%
1-year	60%	-3%
Ytd	9%	2%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	30,513	66,793	102,296	184,650	352,310
Gross Profit	5,828	12,319	21,840	32,314	55,313
Opex	-1,233	-2,568	-5,890	-10,163	-18,611
EBITDA (*)	5,794	11,270	17,124	24,110	39,019
Depreciation	1,199	1,519	1,175	1,958	2,318
Operating Income	4,595	9,751	15,950	22,151	36,701
Financial Income/Expense	-622	-452	4,598	3,675	7,011
Net Other Income/Expense	-461	-737	-1710	-1108	-1762
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	3,512	8,562	18,838	24,718	41,951
Tax	-231	0	-1,695	-2,472	-4,195
Minority Interest/Other	0	0	0	0	0
Net Income	3,281	8,562	17,143	22,246	37,756
Balance Sheet					
Cash and Liquid Assets	4,215	12,019	24,775	23,620	31,814
Inventories	2,379	3,260	8,817	19,199	37,430
Accounts Receivable	7,142	14,956	19,618	31,365	59,844
Other Current Assets	2,433	3,150	5,355	8,419	10,759
Total Current Assets	16,170	33,385	58,566	82,603	139,847
Fixed Assets (**)	1,904	1,741	2,645	14,742	19,255
Financial and Equity Investments	0	0	0	0	0
Other Non-Current Assets (**)	5,400	5,250	8,276	14,493	19,436
Total Non-Current Assets	7,304	6,991	10,921	29,236	38,690
Total Assets	23,473	40,376	69,486	111,838	178,538
Short-Term Debt	4,138	5,071	6,266	13,316	16,330
Accounts Payable	8,768	19,002	27,553	43,823	85,438
Other Current Liabilities	851	1,997	4,395	6,909	8,830
Total Current Liabilities	13,758	26,069	38,214	64,048	110,597
Long-Term Debt	3,621	1,889	2,168	5,652	7,248
Other Non-Current Liabilities	351	1,104	1,876	2,950	3,770
Total Non-Current Liabilities	3,972	2,993	4,044	8,602	11,018
Minority Interest	0	0	0	0	0
Total Shareholders' Equity	5,743	11,314	27,228	39,189	56,923
Total Liabilities and Equity	23,473	40,376	69,486	111,838	178,538
Cash Flow Statement					
Operating Cash Flow	2,712	-2,814	18,081	20,336	36,498
Investing Cash Flow	-2,620	-2,147	-2,557	-17,419	-7,981
Financing Cash Flow	1,157	-47	2,247	11,608	5,430
Dividends Paid	-1,500	-3,200	-3,000	-10,286	-20,021
Free Cash Flow	1,206	-5,042	9,709	-3,599	18,601
Net Debt	3,544	-5,059	-16,341	-4,652	-8,236
Key Ratios					
Gross Margin	19.1%	18.4%	21.4%	17.5%	15.7%
EBITDA Margin	19.0%	16.9%	16.7%	13.1%	11.1%
Net Income Margin	10.8%	12.8%	16.8%	12.0%	10.7%
ROE	64.3%	100.4%	89.0%	67.0%	78.6%
Sales Growth	27%	119%	53%	81%	91%
EBITDA Growth	92%	95%	52%	41%	62%
Earnings Growth	84%	161%	100%	30%	70%
Net Debt-to-Equity (x)	0.6	n.m.	n.m.	n.m.	n.m.
Net Debt-to-EBITDA (x)	0.6	n.m.	n.m.	n.m.	n.m.

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Tofas, founded in 1968, is the 7th largest industrial company in Türkiye. The company's facility in Bursa, opened in 1971, has an annual production capacity of 450k vehicles and it is the only facility in Türkiye to produce both PC and LCV.

Apart from the production of Fiat vehicles, the company is the distributor of Alfa Romeo, Jeep, Maserati and Ferrari.

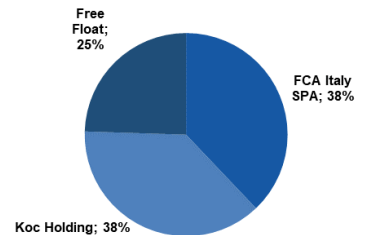
As announced in March 2023, Tofas will be the sole owner of Stellantis Otomotiv, the distributor of Peugeot, Opel, Citroen and DS Automobiles in Türkiye, for a transaction price of EUR400mn. Note that, the deal is currently under the final review of the Competition Authority.

Potential catalysts and risks

Potential catalysts include; i) stronger demand; ii) further expansion in Stellantis' network; iii) approval of the Stellantis Otomotiv deal,

Potential risks include; i) Weaker demand, ii) higher retreat in EBITDA/vehicle, iii) competition, iv) further delay/cancel of Stellantis Otomotiv agreement

Ownership Structure



TURK TRAKTOR

Reversal from an extraordinary year

We resume our coverage of TTRAK with a HOLD recommendation and a TP of 890 TL/shr. denoting 27% upside potential after a 59% outperformance of the BIST100 in 2023. TTRAK gave a brilliant operating performance amid huge demand in the domestic tractor market throughout the year. We expect TTRAK to round off the year on 116% y/y growth, chalking up a margin of 24.4% in 2023. Given our expectation of the reversal of the sales performance in 2024 amid fulfilled demand and higher loan rates, we forecast a 12% contraction in sales volume and have an overcast 2024 outlook for TTRAK. On our expectation of limited 10% EBITDA contraction in 2024YE, we calculate an EV/EBITDA multiple of 8.3x vs. its 5-year historical avg. of 5.3x.

- **Forecasting a limited 26% rise in top-line,** We estimate a total sales volume contraction of 12% y/y (domestic: 15%, export: 5%) in 2024 after a record-high performance in 2023. Also, after resolving the supply-demand imbalance last year, we expect some decline in unit prices in USD terms, which would also result in a normalization of the EBITDA margin to 17.4%.
- **Hefty prospective dividend yield might limit the downside** The average of the past 5-year dividend distribution suggests a payout ratio of 94%. While taking account of our net earnings estimate of TL8.9bn (199% y/y), we calculate a gross dividend yield of 11%, which may offset a further stock decline. Also, the company's solid net cash position of TL4.1bn as of 3Q23 has led to higher financial income in the prevailing environment of rising deposit rates.
- **But we still see limited upside potential for 2024** Notwithstanding the recent sell-off in the stock (21% in absolute terms), we do not foresee a favorable risk-reward given our current COE assumption.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	21.835	88%	47.140	116%	59.532	26%	81.338	37%
EBITDA	3.406	97%	11.481	237%	10.372	-10%	12.611	22%
Net Income	2.971	125%	8.889	199%	8.435	-5%	10.004	19%
P/E (x)	5,2		6,1		8,3		7,0	
EV/EBITDA (x)	7,4		4,3		6,5		5,4	
EV/Sales (x)	1,2		1,0		1,1		0,8	
EPS (TL)	55,7		166,6		158,0		187,5	
Div. Yield (*)	7,8%		3,9%		11,4%		9,6%	
FCF Yield	32,7%		9,8%		8,4%		10,4%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL890.00
Upside (Downside)	27%

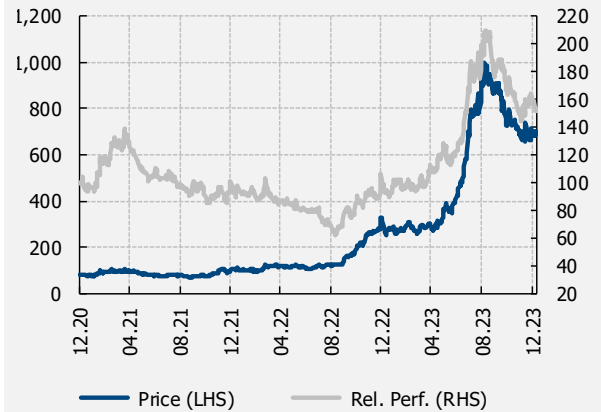
Share Data

Ticker	TTRAK.TI / TTRAK.IS
Close Price	TL702.00
Current MCap. (TL/US\$ mn)	70,247 / 2,340
Number of Shares (mn)	100.066875
Free Float	24%
3m Avg. Daily Turnover (TL/US\$ mn)	424.67 / 14.76

Trading Range (High / Low) (TL)

1-month	740.50 / 659.50
1-year	1,002.40 / 258.94
Ytd	712.00 / 680.00

Performance (TL)	Absolute	Relative
1-month	3%	0%
3-month	-20%	-17%
1-year	169%	63%
Ytd	-1%	-8%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	11.644	21.835	47.140	59.532	81.338
Gross Profit	2.133	4.366	13.718	13.097	16.268
Opex	-560	-1.173	-2.640	-3.427	-4.745
EBITDA (*)	1.733	3.406	11.481	10.372	12.611
Depreciation	161	213	403	702	1.089
Operating Income	1.573	3.193	11.078	9.670	11.522
Financial Income/Expense	95	-176	424	536	732
Net Other Income/Expense	-157	-153	-660	-833	-1139
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	1.510	2.863	10.842	9.372	11.116
Tax	-188	108	-1.953	-937	-1.112
Minority Interest/Other	0	0	0	0	0
Net Income	1.322	2.971	8.889	8.435	10.004
Balance Sheet					
Cash and Liquid Assets	1.567	4.837	6.988	5.038	8.159
Inventories	1.739	3.615	6.916	8.747	12.252
Accounts Receivable	1.264	2.102	4.538	5.216	7.125
Other Current Assets	369	1.023	1.786	4.112	5.414
Total Current Assets	4.940	11.577	20.228	23.113	32.950
Fixed Assets (**)	1.068	1.553	2.357	3.575	5.013
Financial and Equity Investments	0	0	0	0	0
Other Non-Current Assets (**)	103	666	1.132	1.980	2.530
Total Non-Current Assets	1.171	2.219	3.489	5.555	7.543
Total Assets	6.111	13.796	23.718	28.668	40.493
Short-Term Debt	580	3.313	1.209	1.509	3.369
Accounts Payable	2.409	4.925	9.423	13.092	18.346
Other Current Liabilities	378	978	978	995	1.001
Total Current Liabilities	3.367	9.216	11.610	15.596	22.717
Long-Term Debt	555	577	693	874	2.051
Other Non-Current Liabilities	138	365	620	975	1.246
Total Non-Current Liabilities	693	942	1.313	1.849	3.297
Minority Interest	203	208	250	300	330
Total Shareholders' Equity	2.051	3.638	10.794	11.223	14.479
Total Liabilities and Equity	6.111	13.796	23.718	28.668	40.493
Cash Flow Statement					
Operating Cash Flow	4.220	7.542	7.290	7.989	9.638
Investing Cash Flow	-3.721	-6.909	-170	-237	-140
Financing Cash Flow	-106	2.983	-1.733	836	3.309
Dividends Paid	-850	-1.200	-2.100	-8.007	-6.748
Free Cash Flow	5.785	5.024	5.262	5.925	7.279
Net Debt	5.153	9.730	-5.085	-2.655	-2.739
Key Ratios					
Gross Margin	18,3%	20,0%	29,1%	22,0%	20,0%
EBITDA Margin	14,9%	15,6%	24,4%	17,4%	15,5%
Net Income Margin	11,4%	13,6%	18,9%	14,2%	12,3%
ROE	75,7%	104,4%	123,2%	76,6%	77,8%
Sales Growth	87%	88%	116%	26%	37%
EBITDA Growth	64%	97%	237%	-10%	22%
Earnings Growth	70%	125%	199%	-5%	19%
Net Debt-to-Equity (x)	2,5	2,7	n.m.	n.m.	n.m.
Net Debt-to-EBITDA (x)	3,0	2,9	n.m.	n.m.	n.m.

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Türk Traktör, founded in 1954, leading tractor manufacturer in Türkiye with a market share of 44%. The company exports to over 120 countries, mostly in Europe and North America.

Two factories, two CE facilities, an after-sales operation center, and two R&D centers make up Turk Traktor's operational infrastructure.

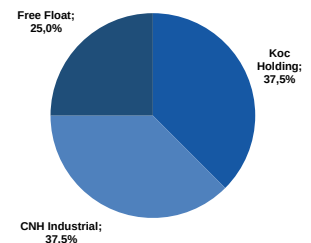
Koc Holding and CNH Industrial hold equal 37.5% share in Turk Traktor and the remaining 25% is free float.

Potential catalysts and risks:

Potential catalyst: i) Higher than expected demand in domestic, ii) stronger export performance, and iii) Higher than expected growth on fixed broadband.

Potential risk: i) lower demand ii) cost pressure, and iii) any unfavourable decision to be taken by the competition authority.

Ownership Structure



Turkish Aviation Sector

Strong cash flow dynamics losing speed, but not fully grounded

Strong demand dynamics were intact in 2023... After two consecutive years of strong profitability between 2021 and 2022, marked by record high margins, expecting a modest 2023 for Turkish Aviation Sector would have been quite reasonable at the beginning of 2023. Yet, despite challenges along the road, such as February's tragic earthquake and Middle East tension, the sector grew 12% y/y on aggregate, driven by 13% higher traffic on the intl' front. Both Turkish Airlines and Pegasus had more than recovered their capacity losses in the post Covid era and 2023 proved to be no different. Turkish carriers' surpassing the bulk of their intl' peers in an high yield environment resulted in a strong set of results on aggregate.

Another strong performance right from the start. We expect 2024 to be broadly similar to 2023 in terms of capacity growth. We harbor the primary concerns over weak global demand growth and softer yields on grounds of normalization. And yet we believe that Turkish players could still positively decouple from the competition on their inherent cost advantages, maintaining high margins. To put it into numbers, THY is 25% ahead of its end-2019 capacity in terms of ASK and 7% in number of flights while Pegasus has exceed those days by 32% in 2023 in ASK terms on similar number of flights thanks to focus more on intl' destinations. However, according to IATA, global capacity will continue to fall below its 2019 capacity levels in 1Q2024, only rising above its 2019 threshold in full year 2024. We expect no sharp deterioration in demand, but rather normalization, and a gradual recovery rather than swift and sizeable capacity increases from peers. but As such, we are not too concerned over the 2024 outlook for Turkish carriers, or their financials, especially for 1H24. Last year's low base stemming mostly from the earthquake in Feb'23 which triggered flight cancellations and free evacuation and cargo flights, suggest the current strength in financials will not disappear at any time soon. For 2024, we assume c.10% total pax growth for the overall market with no sizable change in market shares. Our projections imply 12% USD-revenue growth for our airline coverage for the full year with broadly flat EBITDA margin on aggregate.

Nothing unusual on the risk front. The core risk factor for our constructive view on Turkish aviation stocks, as always, is a downturn in demand for whatever reason. Unless a problem occurs on the demand front, which is unfortunately not uncommon, all remaining risks, including mainly (i) higher jet fuel prices (ii) relatively tougher competition (iii) input inflation, mostly personnel and (iv) FX moves, are of secondary importance and somehow surmountable, as witnessed on numerous occasions in the past. We do not expect the industry's engine and spare parts problems to be over in 2024, and indeed, the current grounding of B737-Max 7s has raised our concern regarding input costs. Yet, for now, it would premature to adopt a negative stance in our view. The previous example from 2019-20 when all B737Maxs were grounded whereby THY was ultimately compensated for losses to a large extent eases our concerns.

Pegasus Airlines

Freed from congestion

We re-iterate our 'BUY' recommendation for Pegasus Airlines with a new 12M target price of EUR31.0/sh. (previously EUR31.0/sh) based on our target 2024 EV/EBITDA of 5.6x (previously 6.3x 2023e EV/EBITDA). The exceptionally high base of 2H22 in terms of revenue yields and margins pressured Pegasus' 2H23 results but we still expect the company to achieve %12 y/y EUR-top line growth and an EBITDA margin of 32% in 2023 vs. 34% in 2022. Yet, this outcome was largely within our expectations.

Following its reallocation of the bulk of its capacity to intl' routes, predominantly to Europe the level of intl' pax demand has been more instrumental in Pegasus' results. Thus, the company is now more vulnerable to our global recession concerns for 2024 than previously. However, we do not expect a very prominent and sudden halt to intl' demand for the foreseeable future that could justify current trading levels. We believe that risk-reward still favors Pegasus.

- **The prime beneficiary of the new second runway at Sabiha Gokcen.** The new runway, expected to double runway capacity, will allow Pegasus to introduce new capacities more smoothly and manage a larger portion of its operations under one roof. The true benefits will come with a lag only after SAW's terminal capacity is enlarged, too. And yet we expect lower congestion at its main hub thanks to the second runway to afford Pegasus greater room for capacity management and support its margins as of 2024.
- **Double digit growth in on track in the foreseeable future.** We see no problem in Pegasus achieving our current capacity assumptions of c.15% CAGR in ASK, c.10% in flights thanks to additional capacity at SAW and still strong demand outlook. Our assumptions ultimately yield 11% CAGR in EUR revenues between 2023e-2025e with an average ROIC of c.15% whilst Net Debt/EBITDA will remain below 3.0x. We welcome the strength in the company's numbers and as supportive for our current positive stance.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	42,732	301%	71,605	68%	122,837	72%	176,591	44%
EBITDA	14,099	n.m.	22,545	60%	36,693	63%	52,977	44%
Net Income	7,100	n.m.	8,897	25%	13,493	52%	19,806	47%
P/E (x)	3.0		7.3		5.4		3.7	
EV/EBITDA (x)	5.1		6.4		5.6		4.4	
EV/Sales (x)	1.7		2.0		1.7		1.3	
EPS (TL)	69.4		87.0		131.9		193.6	
Div. Yield (*)	0.0%		0.0%		0.0%		0.0%	
FCF Yield	42.2%		-38.0%		-61.1%		-24.4%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL1,000.00
Upside (Downside)	40%

Share Data

Ticker	PGSUS.TI / PGSUS.IS
Close Price	TL715.00
Current MCap. (TL/US\$ mn)	73,144 / 2,437
Number of Shares (mn)	102.299707
Free Float	43%
3m Avg. Daily Turnover (TL/US\$ mn)	1,350.43 / 46.98

Trading Range (High / Low) (TL)

1-month	715.00 / 639.00
1-year	956.00 / 405.60
Ytd	715.00 / 649.50

Performance (TL)	Absolute	Relative
1-month	6%	3%
3-month	-2%	1%
1-year	59%	-4%
Ytd	10%	3%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	10,664	42,732	71,605	122,837	176,591
Gross Profit	118	11,577	17,815	28,635	41,110
Opex	-663	-1,943	-3,131	-5,483	-7,885
EBITDA (*)	2,271	14,099	22,545	36,693	52,977
Depreciation	2,816	4,465	7,860	13,541	19,751
Operating Income	-545	9,634	14,684	23,152	33,225
Financial Income/Expense	-1,486	-3,525	-5,401	-9,072	-12,558
Net Other Income/Expense	-36	41	0	0	0
Profit (Loss) from Subsidiaries	11	19	0	0	0
Pre-Tax Income	-2,057	6,619	9,284	14,080	20,668
Tax	61	481	-387	-587	-862
Minority Interest/Other	0	0	0	0	0
Net Income	-1,996	7,100	8,897	13,493	19,806
Balance Sheet					
Cash and Liquid Assets	6,977	10,558	22,557	42,574	73,534
Inventories	141	502	391	560	689
Accounts Receivable	337	1,175	2,068	3,364	4,545
Other Current Assets	5,232	8,482	7,655	10,971	13,497
Total Current Assets	12,687	20,717	32,670	57,470	92,264
Fixed Assets (**)	34,535	3,802	119,709	204,019	272,805
Financial and Equity Investments	2,340	4,643	7,587	11,672	14,358
Other Non-Current Assets (**)	3,386	66,641	10,587	16,340	20,101
Total Non-Current Assets	40,261	75,086	137,882	232,030	307,265
Total Assets	52,948	95,803	170,552	289,500	399,529
Short-Term Debt	7,768	10,363	16,492	28,106	37,583
Accounts Payable	1,891	477	8,227	12,947	18,160
Other Current Liabilities	3,021	9,920	8,958	12,839	15,794
Total Current Liabilities	12,679	20,760	33,677	53,892	71,537
Long-Term Debt	28,898	51,113	85,261	145,309	194,302
Other Non-Current Liabilities	4,516	5,885	10,587	15,173	18,666
Total Non-Current Liabilities	33,414	56,999	95,848	160,483	212,967
Minority Interest	0	0	0	0	0
Total Shareholders' Equity	6,855	18,045	41,028	75,126	115,025
Total Liabilities and Equity	52,948	95,803	170,552	289,500	399,529
Cash Flow Statement					
Operating Cash Flow	2,607	15,116	40,602	53,160	70,708
Investing Cash Flow	-16,130	-5,944	-65,183	-97,850	-88,538
Financing Cash Flow	16,894	-8,196	36,608	64,708	48,789
Dividends Paid	0	0	0	0	0
Free Cash Flow	-13,523	8,940	-24,582	-44,690	-17,830
Net Debt	29,689	50,918	79,196	130,842	158,351
Key Ratios					
Gross Margin	1.1%	27.1%	24.9%	23.3%	23.3%
EBITDA Margin	21.3%	33.0%	31.5%	29.9%	30.0%
Net Income Margin	n.m.	16.6%	12.4%	11.0%	11.2%
ROE	-32.6%	57.0%	30.1%	23.2%	20.8%
Sales Growth	122%	301%	68%	72%	44%
EBITDA Growth	372%	n.m.	60%	63%	44%
Earnings Growth	n.m.	n.m.	25%	52%	47%
Net Debt-to-Equity (x)	4.3	2.8	1.9	1.7	1.4
Net Debt-to-EBITDA (x)	13.1	3.6	3.5	3.6	3.0

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)
"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Pegasus is the single true implementer of the low-cost airline business model in Turkey, whose main hub is Sabiha Gokcen (SAW). As of end-9M23, the company's fleet consists of 105 aircraft (i.e. 16 Boeing & 89 Airbus).

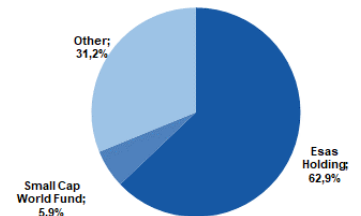
Pegasus generated EUR1.7bn in revenues in 2019 with an EBITDA of EUR560mn and EUR205mn net income. The company's investment story which significantly started to change in 2018 with an aim to increase international exposure was severely interrupted by Covid-19 and it posted a cumulative net losses of EUR361mn in 2020-21 period. Yet, the company has recovered its losses more rapidly than expectations at the start of 2022 after starting to allocate larger portion of its capacity to high margin international flights. The recovery continued at full pace in 2023 and we calculate 17% additional seat capacity accompanied by 19% pax growth. For 2024, we expect a slower growth but still 13% additional seats to be introduced and 11% pax growth which would then translate into 12% EUR-top line growth.

Our target EV/EBITDA of 5.9x we apply for our 2024 forecasts rests on following assumptions: NOPAT CAGR of 7% in the next two years with an EBIT margin of 19% and a ROIC of 16% to be followed by 4% growth with a ROIC of 12%. Our EUR WACC is 11.0%.

Potential catalysts include; i. strong traffic data indicating revival of demand; ii. better than expected yields and margins; iii. further improvement in per pax ancillary income.

Potential risks include; i. downturn in demand; ii. Higher fuel prices; iii. failure in cost containment efforts, particularly in high inflation environment and iv. prolonged second runway construction at SAW.

Ownership Structure



CAPACITY ASSUMPTIONS						REVENUE & COST ASSUMPTIONS					
	2021	2022	2023	2024	2025		2021	2022	2023	2024	2025
Daily Landing	379	455	513	560	605	Breakdown of Revenues (EUR)	1.025	2.449	2.731	3.047	3.375
-Domestic	214	182	188	200	200	Scheduled flights	693	1.755	1.866	2.073	2.316
-International	160	263	318	355	400	Domestic scheduled flights	226	311	308	324	327
Number of Landing	138.436	166.191	187.071	204.960	220.825	International scheduled flight	466	1.444	1.558	1.749	1.989
-Domestic	78.266	66.405	68.748	73.200	73.000	Ancillary revenue	315	626	824	937	1.021
-International	58.323	95.949	115.957	129.930	146.000	Charter flights	10	60	32	25	25
Load Factor	77,8%	83,6%	84,8%	83,7%	83,6%	Other revenue	6	8	10	11	12
-Scheduled	77,7%	83,3%	84,8%	83,7%	83,7%	Yields (PAX) - EUR	50,8	90,9	85,6	85,6	87,0
-Domestic	81,6%	85,2%	87,7%	86,0%	86,0%	Scheduled flights	34,6	66,7	59,2	58,8	60,2
-International	72,4%	82,0%	83,1%	82,5%	82,5%	Domestic scheduled flights	18,9	28,5	25,7	25,2	25,2
Number of Passengers	20,2	26,9	31,9	35,6	38,8	International scheduled flight	58,2	93,8	79,7	78,1	78,1
-Scheduled	20,0	26,3	31,5	35,3	38,5	Ancillary revenue	15,6	23,3	25,8	26,3	26,3
-Domestic	12,0	10,9	12,0	12,9	13,0	Charter flights	64,8	93,4	79,4	79,4	79,4
-International	8,0	15,4	19,5	22,4	25,5	Other revenue	0,3	0,3	0,3	0,3	0,3
-Unscheduled (Charter)	0,2	0,6	0,4	0,3	0,3	Yields (PAX) Increase - EUR	19%	79%	-6%	0%	2%
ASK	33.052	47.643	58.217	67.166	75.498	Scheduled flights	27%	93%	-11%	-1%	2%
-Scheduled	32.414	46.461	57.254	66.386	74.703	Domestic scheduled flights	16%	51%	-10,0%	-2,0%	0,0%
-Domestic	11.491	9.381	10.052	11.012	11.114	International scheduled flight	20%	61%	-15,0%	-2,0%	0,0%
-International	20.923	37.080	47.201	55.374	63.589	Ancillary revenue	8%	49%	11,0%	2,0%	0,0%
-Unscheduled (Charter)	639	1.182	963	780	795	Charter flights	28%	44%	-15,0%	0,0%	0,0%
ASK Growth	48%	44%	22%	15%	12%	Other revenue	2%	1%	1,0%	1,0%	1,0%
-Scheduled	49%	43%	23%	16%	13%	COSTS (EURmn)	1.035	1.871	2.171	2.472	2.740
-Domestic	25%	-18%	7%	10%	1%	Jet fuel expenses	301	832	816	917	1.031
-International	65%	77%	27%	17%	15%	Ex-Fuel	734	1.039	1.355	1.555	1.709
Total Fleet	90	97	105	115	125	RASK	3,10	5,14	4,69	4,54	4,47
-Financial Lease	62	75	82	103	114	CASK	3,13	3,93	3,73	3,68	3,63
-Operational Lease	28	22	23	12	11	Fuel	0,91	1,75	1,40	1,37	1,37
Total Seat Capacity (eop)	17.185	19.405	21.600	24.391	26.831	Ex-Fuel	2,22	2,18	2,33	2,32	2,26
Pax per Landing	146	162	171	174	176	Personnel expenses	0,39	0,53	0,57	0,56	0,53
-Scheduled	146	162	171	174	176	Fuel Expense	301	832	816	917	1.031
-Domestic	153	164	174	176	178	Fuel Consumption (mn)	560	785	960,6	1108,2	1245,7
-International	137	160	169	172	174	Fuel Consumption / ASK	16,9	16,5	16,5	16,5	16,5
Daily Landing per Aircraft (qua)	4,38	4,87	5,07	5,09	5,04	Fuel Price	538	1061	850,0	827,5	827,5

INCOME STATEMENT						BALANCE SHEET					
	2021	2022	2023	2024	2025		2021	2022	2023	2024	2025
EUR mn						EUR mn					
Total revenues	1.025	2.449	2.731	3.047	3.375	Cash and liquid assets	475	530	692	912	1.280
COGS	-977	-1.762	-2.052	-2.336	-2.589	Inventories	10	25	12	12	12
Gross profit	48	688	680	710	786	Accounts receivable	23	59	63	72	79
Opex	-63	-109	-119	-136	-151	Total current assets	864	1.039	1.003	1.231	1.606
EBITDA	254	835	860	910	1.012	Fixed assets	2.352	3.138	3.675	4.370	4.750
Depreciation	269	257	300	336	377	Financial and equity investment	159	233	233	250	250
Operating income	-22	578	560	574	635	Total non-current assets	2.742	3.767	4.233	4.970	5.350
Financial income/expense	-140	-205	-206	-225	-240	Total assets	3.606	4.806	5.236	6.201	6.956
Net other income/expense	-5	28	15	15	15	Short-term debt	529	496	506	602	654
Profit (Loss) from Subsidiaries	1	1	0	0	0	Accounts payable	129	197	253	277	316
Pre-tax income	-158	403	369	364	410	Total current liabilities	864	1.041	1.034	1.154	1.246
Tax	8	28	-15	-15	-16	Long-term debt	1.968	2.564	2.617	3.112	3.383
Minority interest/other	0	0	0	0	0	Total non-current liabilities	2.276	2.859	2.942	3.437	3.708
Net income	-150	431	354	350	394	Total shareholders' equity	467	905	1.260	1.609	2.003
						Total liabilities and equity	3.606	4.806	5.236	6.201	6.956

TAV Airports Holding

More levered but for a reason

We re-iterate our 'BUY' recommendation for TAV with a new 12M target share price of EUR5.6/sh (previously EUR5.5/sh). The company delivered no major surprise in its 2023 financials and we expect it to slightly exceed the high end of its guidance. We keep our model assumptions broadly unchanged and consider 2024 a transition year before the finalization of ongoing investments in 2025 and the consequent lifting of the current burden on cash flow. Our new target price represents c.46% return potential.

We consider TAV's underperformance to its airline peers in 2023 as understandable to a certain extent, firstly because airlines appear more attractive in a high yield environment and secondly, due to TAV's higher indebtedness amid rising global rates. Yet, further decoupling going forward in 2014 would be questionable, in our view, while yields, unlike volumes, are softening and TAV's CAPEX burden will be declining by end-2024.

- **Profitable growth in 2024, as in 2023.** TAV hosted c.63.0mn pax in 2023 in margin accretive intl' lines, 25% higher than a year ago and 13% above pre-Covid times. Growing tourist demand for Antalya, Ajet's and SunExpress' higher utilization of Ankara and İzmir respectively, and strong prints in Almaty were the core drivers. We expect an outperformance from TAV in its end-2023 financials as our current estimates (USD1.32bn in revenues and USD390bn EBITDA) exceed management's guidance of EUR1.2bn-1.29bn in revenues and EBITDA of EUR330-380mn. Meanwhile, we expect 7% volume growth for 2024 yielding 14% growth in revenues with flat margins
- **No prolonged indebtedness.** TAV is more leveraged today due to its expansion investments in Almaty, Ankara and Antalya, amounting to USD1.2bn in total. The construction activities are ongoing and the incremental contribution is set to start by 2025. Yet, these are already cash generating assets and since we expect a higher y/y contribution from the rest, particularly from Georgia, we foresee gradual deleveraging in TAV's financials starting mostly from end-2024. Net Debt/EBITDA from the current ~4.0x to ~2.5x in less than two years.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	18,308	235%	34,960	91%	61,953	77%	89,213	44%
EBITDA	5,726	254%	10,568	85%	18,644	76%	27,923	50%
Net Income	1,899	306%	5,579	194%	7,421	33%	11,856	60%
P/E (x)	10.8		6.5		6.0		3.8	
EV/EBITDA (x)	4.7		4.4		3.5		1.6	
EV/Sales (x)	1.5		1.3		1.0		0.5	
EPS (TL)	5.2		15.4		20.4		32.6	
Div. Yield (*)	0.0%		0.0%		0.0%		0.0%	
FCF Yield	-21.0%		-1.7%		-0.2%		22.5%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL180.00
Upside (Downside)	46%

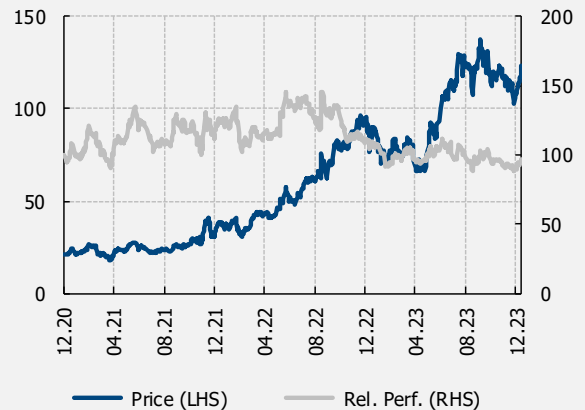
Share Data

Ticker	TAVHL.TI / TAVHL.IS
Close Price	TL123.00
Current MCap. (TL/US\$ mn)	44,684 / 1,489
Number of Shares (mn)	363.28125
Free Float	48%
3m Avg. Daily Turnover (TL/US\$ mn)	412.81 / 14.39

Trading Range (High / Low) (TL)

1-month	123.00 / 102.50
1-year	137.50 / 66.00
Ytd	123.00 / 107.50

Performance (TL)	Absolute	Relative
1-month	8%	5%
3-month	-2%	1%
1-year	53%	-8%
Ytd	14%	7%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	5,459	18,308	34,960	61,953	89,213
Gross Profit	0	0	0	0	0
Opex	-4,700	-14,439	-28,240	-49,513	-70,061
EBITDA (*)	1,616	5,726	10,568	18,644	27,923
Depreciation	857	1,858	3,745	-6,205	-8,771
Operating Income	759	3,869	6,823	12,440	19,152
Financial Income/Expense	369	-2,657	-3,160	-7,868	-10,910
Net Other Income/Expense	-25	386	0	328	421
Profit (Loss) from Subsidiaries	-238	826	2904	4233	5927
Pre-Tax Income	865	2,424	6,810	9,132	14,590
Tax	-329	-361	-1,199	-1,370	-2,189
Minority Interest/Other	55	148	-239	-341	-545
Net Income	468	1,899	5,579	7,421	11,856
Balance Sheet					
Cash and Liquid Assets	2,642	8,154	15,310	16,933	46,836
Inventories	313	997	2,213	3,423	4,673
Accounts Receivable	1,461	2,477	5,018	7,763	10,597
Other Current Assets	2,331	3,358	6,500	9,007	11,174
Total Current Assets	6,747	14,986	29,041	37,125	73,279
Fixed Assets (**)	5,597	9,425	21,496	33,252	45,392
Financial and Equity Investments	4,816	14,582	33,340	51,572	70,401
Other Non-Current Assets (**)	34,810	45,342	86,350	130,286	145,935
Total Non-Current Assets	45,222	69,350	141,186	215,110	261,728
Total Assets	51,970	84,335	170,227	252,236	335,007
Short-Term Debt	5,197	7,736	13,682	18,615	22,682
Accounts Payable	751	1,685	3,106	4,804	6,559
Other Current Liabilities	1,404	5,155	12,025	18,595	25,379
Total Current Liabilities	7,353	14,575	28,813	42,015	54,620
Long-Term Debt	12,787	20,088	44,448	68,755	93,858
Other Non-Current Liabilities	16,582	26,107	47,366	65,401	80,852
Total Non-Current Liabilities	29,369	46,195	91,815	134,156	174,710
Minority Interest	226	399	705	959	1,168
Total Shareholders' Equity	15,022	23,166	48,895	75,105	104,510
Total Liabilities and Equity	51,970	84,335	170,227	252,236	335,007
Cash Flow Statement					
Operating Cash Flow	2,490	4,837	5,510	10,254	15,358
Investing Cash Flow	-4,658	-9,137	-6,111	-10,349	-5,316
Financing Cash Flow	-1,876	8,041	2,244	2,388	3,068
Dividends Paid	0	0	0	0	0
Free Cash Flow	-2,168	-4,300	-601	-94	10,041
Net Debt	13,359	20,521	42,821	70,438	69,704
Key Ratios					
Gross Margin	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA Margin	29.6%	31.3%	30.2%	30.1%	31.3%
Net Income Margin	8.6%	10.4%	16.0%	12.0%	13.3%
ROE	6.2%	9.9%	15.5%	12.0%	13.2%
Sales Growth	n.m.	235%	91%	77%	44%
EBITDA Growth	n.m.	254%	85%	76%	50%
Earnings Growth	n.m.	306%	194%	33%	60%
Net Debt-to-Equity (x)	0.9	0.9	0.9	0.9	0.7
Net Debt-to-EBITDA (x)	8.3	3.6	4.1	3.8	2.5

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

TAV Airports Holding, founded in 1997, is Turkey's leading airport terminal operator with a foothold at in eight countries, namely Turkey, Georgia, North Macedonia, Tunisia, Saudi Arabia and Kazakhstan. The Company tries to capture all revenue generating activities at an airport (e.g. dutyfree, catering, ground handling) through its subsidiaries. Croatia and Latica, for example, are where TAV positions only with its service companies, not as a terminal operator. TAV's revenues, mostly in hard currencies, are dependent mainly on passenger traffic while costs, mostly denominated in TRY, are mostly fixed in nature and relatively less dependent on passengers, providing the company an operational leverage advantage. On the flip side, at times volumes are down, the company's margins are adversely affected immediately as clearly witnessed in 2020.

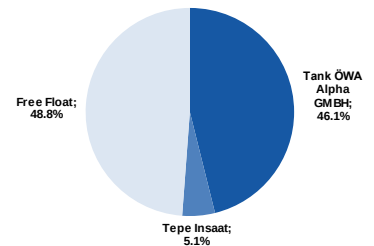
On the other hand, since the company is TRY short on the operational front (i.e. TRY costs> TRY revenues), weaker TRY enhances its margins.

Potential catalysts and risks

Potential catalysts include; i. New additions to the portfolio and/or sizeable tenders, ii. low oil prices triggering higher air passenger traffic iii. management's dedication to dividend distribution

Potential risks include; i. downturn in passenger traffic; ii. failure in concession renewals and/or new additions; iii. Lower duty free spending or service revenues.

Ownership Structure



YKY TAV Forecasts	2021a	2022	2023e	y/y inc.	2024e	y/y inc.	2025e	y/y inc.
Operational Data								
Number of Pax (mn)	51,8	78,5	95,5	22%	102,3	7%	108,4	6%
-Domestic	23,3	28,2	32,6	16%	31,1	-5%	32,3	4%
-International	28,5	50,3	62,9	25%	71,2	13%	76,1	7%
Financials (EUR mn)								
Revenues	522	1.051	1.316	25%	1.496	14%	1.676	12%
Operating Costs	449	825	1.063	29%	1.196	13%	1.316	10%
-Depreciation	77	96	136	43%	150	10%	165	10%
-Cash (*)	373	729	926	27%	1.046	13%	1.152	10%
EBITDA	150	322	389	21%	450	16%	525	17%
EBIT	73	227	253	12%	300	19%	360	20%
Net Profit	45	107	182	71%	179	-2%	223	24%
Equity (eop)	996	1.205	1.387	15%	1.566	13%	1.789	14%
Margins								
EBITDA	28,6%	30,6%	29,6%	-1pp	30,1%	1pp	31,3%	1pp
Net	8,6%	10,1%	13,9%	4pp	12,0%	-2pp	13,3%	1pp
Leverage								
Net Debt (EURmn)	1.171	1.497	1.680	12%	1.934	15%	1.659	-14%

TURKISH AIRLINES

Our top-pick air carrier

We re-iterate our 'BUY' recommendation for Turkish Airlines with a new 12M target share price of USD13.5 (previously USD13.3). We welcome the strength in the company's financials in 2023, marked by record high margins (i.e. ~30% EBITDAR margin) and record low indebtedness on top of already strong 2022 results. This was despite various challenges throughout the year, such as one-off earthquake expenses (+USD200mn), engine and spare part problems, and Middle East tension.

THY's decoupling from its legacy peers is mainly attributable to its market share gains thanks to its agile approach to introducing new capacities in the post-Covid era and high yield environment with broadly similar resources (e.g. fleet, personnel). We believe the company's above-sector profitability and growth deserves higher levels than current multiples of ~3.5x EV/EBITDA and ~3.0x P/E on our 2024 forecasts which are USD and align with THY method.

- **What do we expect for 2024?** We now expect the company to close 2023 on USD top-line growth of 13% with a y/y flat company defined EBITDA margin of 27%. While we foresee a relative normalization in margins and indebtedness to historical levels in 2024 due mainly to softer yields and new aircraft deliveries, we expect no retreat to pre-Covid levels for the foreseeable future thanks to current alive demand, a growing stake of high margin intl' flights, improving cargo revenues, and a weaker TL. We project 6% revenue growth in 2024 with broadly y/y parallel EBITDA margin in 2024. If the problems faced by sea freighters in the Red Sea persist, we might see a positive surprise from the contribution of Turkish Airlines cargo operations.
- **Fresh B737-Max concerns?** THY's recent grounding of all five of its Boeing 737-MAX 9s a precautionary measure following the Alaska Airlines accident should not cause any significant interruption to the company's operations for now, in our view, unless it extends to MAX-8s. Moreover, even if the problem persists, compensation from the manufacturer could ease the financial burden, as witnessed in 2019-2020 when THY had to ground all B737-MAX, including MAX-8s.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	311,169	220%	494,188	59%	813,667	65%	1,125,893	38%
EBITDA	78,684	182%	114,123	45%	172,486	51%	261,116	51%
Net Income	47,429	477%	76,790	62%	93,573	22%	151,290	62%
P/E (x)	1.8		3.4		3.7		2.3	
EV/EBITDA (x)	3.2		4.7		4.4		3.1	
EV/Sales (x)	0.8		1.1		0.9		0.7	
EPS (TL)	34.4		55.6		67.8		109.6	
Div. Yield (*)	0.0%		0.0%		0.0%		0.0%	
FCF Yield	105.3%		25.3%		27.6%		53.0%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL400.00
Upside (Downside)	59%

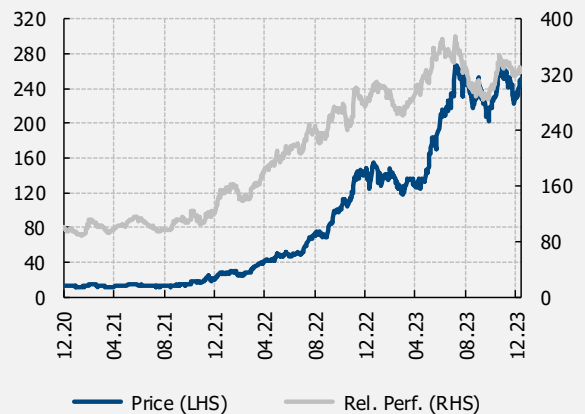
Share Data

Ticker	THYAO.TI / THYAO.IS
Close Price	TL251.00
Current MCap. (TL/US\$ mn)	346,380 / 11,540
Number of Shares (mn)	1380
Free Float	50%
3m Avg. Daily Turnover (TL/US\$ mn)	8,789.92 / 305.80

Trading Range (High / Low) (TL)

1-month	253.25 / 222.20
1-year	268.50 / 118.50
Ytd	251.00 / 228.60

Performance (TL)	Absolute	Relative
1-month	1%	-2%
3-month	12%	15%
1-year	85%	12%
Ytd	10%	3%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	97,378	311,169	494,188	813,667	1,125,893
Gross Profit	22,145	75,641	131,001	201,144	304,343
Opex	-9,696	-27,910	-64,092	-108,092	-144,979
EBITDA (*)	27,922	78,684	114,123	172,486	261,116
Depreciation	15,473	30,953	47,214	79,434	101,752
Operating Income	12,449	47,731	66,910	93,052	159,364
Financial Income/Expense	-6,870	-4,764	20,238	-18,202	-24,263
Net Other Income/Expense	2921	6256	4762	35912	46002
Profit (Loss) from Subsidiaries	743	2180	3929	6022	7714
Pre-Tax Income	9,191	51,403	95,838	116,784	188,817
Tax	-977	-3,971	-19,047	-23,210	-37,526
Minority Interest/Other	1	0	0	0	0
Net Income	8,213	47,429	76,790	93,573	151,290
Balance Sheet					
Cash and Liquid Assets	35,748	87,897	108,014	156,725	307,456
Inventories	3,481	6,196	12,486	19,922	26,235
Accounts Receivable	12,323	18,618	33,706	50,626	66,670
Other Current Assets	14,245	22,384	43,297	65,670	86,481
Total Current Assets	65,797	135,095	197,504	292,943	486,842
Fixed Assets (**)	259,576	396,988	704,755	1,163,605	1,532,355
Financial and Equity Investments	4,335	8,258	10,774	22,452	29,567
Other Non-Current Assets (**)	24,000	38,230	75,595	115,353	151,909
Total Non-Current Assets	287,911	443,476	791,125	1,301,410	1,713,831
Total Assets	353,708	578,571	988,629	1,594,353	2,200,673
Short-Term Debt	53,464	70,184	112,606	172,256	226,844
Accounts Payable	11,896	22,482	37,459	59,766	78,706
Other Current Liabilities	25,083	61,374	88,799	134,875	177,617
Total Current Liabilities	90,443	154,040	238,863	366,897	483,168
Long-Term Debt	145,647	192,799	274,459	419,848	552,899
Other Non-Current Liabilities	26,968	50,305	93,574	149,760	197,219
Total Non-Current Liabilities	172,615	243,104	368,034	569,607	750,118
Minority Interest	10	0	0	0	0
Total Shareholders' Equity	90,640	181,422	381,732	657,849	967,387
Total Liabilities and Equity	353,708	578,571	988,629	1,594,353	2,200,673
Cash Flow Statement					
Operating Cash Flow	49,362	117,012	124,736	199,504	286,441
Investing Cash Flow	-4,630	-26,494	-57,871	-103,933	-102,922
Financing Cash Flow	-22,346	-50,005	-59,978	-46,860	-32,788
Dividends Paid	0	0	0	0	0
Free Cash Flow	44,732	90,518	66,865	95,571	183,519
Net Debt	163,363	175,086	279,050	435,379	472,288
Key Ratios					
Gross Margin	22.7%	24.3%	26.5%	24.7%	27.0%
EBITDA Margin	28.7%	25.3%	23.1%	21.2%	23.2%
Net Income Margin	8.4%	15.2%	15.5%	11.5%	13.4%
ROE	12.6%	34.9%	27.3%	18.0%	18.6%
Sales Growth	110%	220%	59%	65%	38%
EBITDA Growth	238%	182%	45%	51%	51%
Earnings Growth	n.m.	477%	62%	22%	62%
Net Debt-to-Equity (x)	1.8	1.0	0.7	0.7	0.5
Net Debt-to-EBITDA (x)	5.9	2.2	2.4	2.5	1.8

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)
"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Turkish Airlines, founded in 1933, is the Republic of Turkey's national flag carrier operating with a fleet of 373 aircraft as of end-1Q22. The company's main strategy is greater focus on transfer passengers by utilizing Istanbul's location advantage. The company's faster than global average growth in the last decade was interrupted since 2016 on various reasons and dipped in 2020 after outbreak of Covid-19. Yet, we have observed a much stronger capacity introduction from the company than our initial expectations and its peers starting from 2H21 which was crowned by record high revenue yields on strong demand environment.

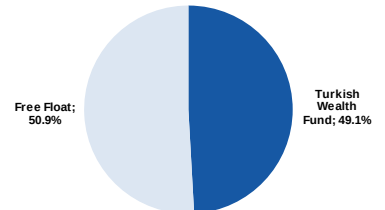
Our target EV/EBITDA of 5.2x we apply for our 2024 forecasts rests on following assumptions: NOPAT CAGR of 5% in the next two years with an EBIT margin of 14% and a ROIC of 12% to be followed by 2.5% growth with a ROIC of 10.5%. Our USD WACC is 10.0%.

Potential catalysts and risks

Potential catalysts include; i. strong traffic data indicating robust demand, especially improving load factors; ii. lower than expected erosion on yields and better margins; iii. stable political environment in Turkey's proximity;

Potential risks include; i. lower demand triggering lower load factors, ii. higher than expected erosion revenue yields; iii. adverse oil price and parity movements

Ownership Structure



YKY Model Assumptions & Forecasts

CAPACITY ASSUMPTIONS						REVENUE & COST ASSUMPTIONS				
	2021	2022	2023	2024	2025		2021	2022	2023	2024
Daily Landing	893	1.238	1.424	1.495	1.559	Breakdown of Revenues	10.685	18.426	20.756	22.023
-Domestic	409	473	563	575	592	Pax Revenues	6.389	14.291	17.714	18.311
-International	483	765	861	920	967	Scheduled	6.310	14.179	17.615	18.261
Number of Landing	325.825	451.694	519.734	547.190	569.030	Domestic	776	1.235	1.405	1.372
-Domestic	149.362	172.469	205.451	210.300	216.146	International	5.534	12.944	16.210	16.889
-International	176.463	279.225	314.283	336.890	352.884	Unscheduled	79	112	99	50
Load Factor	71,4%	82,2%	83,2%	83,7%	84,2%	Cargo Revenues	4.015	3.735	2.494	3.179
-Scheduled	70,9%	81,6%	82,9%	83,4%	83,9%	Technic Revenues	253	367	474	433
-Domestic	78,1%	85,8%	84,4%	84,5%	85,0%	Others	28	33	75	100
-International	65,9%	79,3%	82,0%	82,8%	83,3%	Passenger Revenue Yields (RPK)				
Number of Passengers	44,8	71,8	83,4	89,4	93,6	Pax Revenues	7,37	8,78	9,13	8,54
-Scheduled	43,7	68,2	80,0	87,6	91,7	Scheduled	7,43	9,17	9,46	8,71
-Domestic	19,8	25,3	30,2	30,2	31,2	Domestic	5,80	7,23	6,76	6,32
-International	23,9	42,9	49,8	57,4	60,5	Domestic (TRY)	51,52	119,88	169,16	233,64
ASK	127.781	201.757	234.839	257.480	272.741	International	7,73	9,41	9,80	8,98
-Scheduled	126.033	193.399	226.301	252.817	267.798	Passenger Revenue Yields (RPK) (y/y)				
-Domestic	17.142	19.904	24.640	25.688	26.977	Pax Revenues	3%	19%	4%	-6%
-International	108.891	173.495	201.661	227.129	240.821	Scheduled	3%	23%	3%	-8%
ASK Growth	70%	58%	16%	10%	6%	Domestic	1%	25%	-7%	-6%
-Scheduled	71%	53%	17%	12%	6%	Domestic (TRY)	28%	133%	41%	38%
-Domestic	40%	16%	24%	4%	5%	International	3%	22%	4%	-8%
-International	77%	59%	16%	13%	6%	Cargo Revenues per Ton	2.135	2.224	1.503	1.600
Total Fleet	370	394	420	445	445	Breakdown of Total Costs	9.411	15.710	17.946	19.504
Passenger Aircraft	350	373	399	424	424	Fuel	2.756	6.467	6.096	6.896
Cargo Aircraft	20	21	21	21	21	Ex-Fuel	6.655	9.243	11.850	12.609
Total Fleet	370	394	420	445	445	CASK	7,36	7,79	7,64	7,58
Total Seat Capacity (eop)	75.313	79.934	85.346	90.762	90.762	Fuel	2,16	3,21	2,60	2,68
Pax per Landing	137	159	160	163	165	Ex-Fuel	5,21	4,58	5,05	4,90
-Domestic	133	147	147	144	144	Personnel	1,02	1,06	1,38	1,36
-International	135	154	158	170	171	Fuel	2756,00	6467,00	6095,86	6895,91
Daily Landing per Aircraft (qua)	2,6	3,4	3,7	3,6	3,7	Fuel Consumption (mn)	4,2	5,7	6,4	6,9
Cargo carried (tons)	1.881	1.679	1.659	1.987	2.080	Fuel Consumption / ASK	32,5	28,0	27	27

INCOME STATEMENT						BALANCE SHEET				
	2021	2022	2023	2024	2025		2021	2022	2023	2024
USD mn						USD mn				
Total revenues	10.686	18.426	20.756	22.023	23.790	Cash and liquid assets	2.682	4.701	3.669	3.693
COGS	-8.322	-14.036	-15.254	-16.579	-17.359	Inventories	261	331	424	469
Gross profit	2.364	4.390	5.502	5.444	6.431	Accounts receivable	925	995	1.145	1.193
Opex	-1.089	-1.674	-2.692	-2.926	-3.063	Total current assets	4.938	7.225	6.709	6.902
EBITDA	3.015	4.580	4.793	4.669	5.517	Fixed assets	19.474	21.300	23.940	27.416
Depreciation	1.740	1.864	1.983	2.150	2.150	Financial and equity investment	237	277	366	529
Net Operating Profit	1.275	2.716	2.810	2.519	3.367	Total non-current assets	21.599	23.719	26.874	30.663
Financial income/expense	-666	-254	850	-493	-513	Total assets	26.537	30.944	33.583	37.565
Net other income/expense	339	356	200	972	972	Short-term debt	3.996	3.747	3.825	4.059
Profit (Loss) from Subsidiaries	75	121	165	163,0	163,0	Accounts payable	891	1.200	1.272	1.408
Pre-tax income	1.023	2.939	4.025	3.161	3.990	Total current liabilities	6.773	8.224	8.114	8.645
Tax	-64	-214	-800,0	-628,2	-792,9	Long-term debt	10.907	10.292	9.323	9.892
Minority interest/other	0	0	0	0	0	Total non-current liabilities	12.927	12.978	12.502	13.421
Net income	959	2.725	3.225	2.533	3.197	Total shareholders' equity	6.836	9.742	12.967	15.500
						Total liabilities and equity	26.537	30.944	33.583	37.565

Anadolu Grubu Holding

Safe play on current macro conditions

We maintain our BUY rating for Anadolu Grubu Holding and update our TP to TL330.0 from TL304.00 on our new forecast for the group companies and our new macro assumptions. AGHOL posted strong financial results in 9M23 on the back of strong results in the core businesses (AEFES, CCOLA, and MGROS). We expect positive momentum in the financials to continue and the Holding to end the year with 144% y/y net earnings growth. Throughout 2023, the stock gave a significant outperformance relative to the BIST100, and we expect this to persist given a defensive core business, geographically diversified revenue stream, declining leverage (0.4x net debt/EBITDA), and low working capital needs. AGHOL has a NAV discount of 35% based on our estimate. Hence, we continue to favor AGHOL as we consider it provides a safe play in the current macroeconomic theme.

- **Core business to remain robust** On the back of price increases, yearly TL depreciation and resilient volume outlook, we expect AEFES to remain solid in 2024 with a 63% y/y top-line and 54% y/y EBITDA growth. On the food retail side, considering ongoing inflationary environment with the initiatives to enhance addressable market, we forecast 73% y/y net sales growth with a 68% EBITDA growth in 2024. All in all, we forecast AGHOL to post a 61% y/y revenue and 45% y/y EBITDA growth in 2024.
- **Strong execution in balance sheet management** After a solid performance from core and non-core businesses in 9M23, the company's consolidated Net Debt/EBITDA has showed further declined to 0.4x from 0.8x in 9M22. On the back of our positive view on the core businesses, we foresee deleveraging may continue in 2024, even if at a slower pace.
- **Risks:** i) Macro & geopolitical challenges, ii) Regulatory changes & rise in taxation, iii) Fluctuation in raw material prices.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	177,978	119%	328,995	85%	529,682	61%	699,181	32%
EBITDA	24,421	140%	47,490	94%	68,685	45%	92,058	34%
Net Income	3,801	194%	9,264	144%	13,600	47%	19,707	45%
P/E (x)	3.9		3.9		3.9		2.7	
EV/EBITDA (x)	3.2		2.7		2.4		2.0	
EV/Sales (x)	0.4		0.4		0.3		0.3	
EPS (TL)	15.6		38.0		55.8		80.9	
Div. Yield (*)	0.4%		0.6%		0.9%		1.1%	
FCF Yield	-31.3%		-8.7%		15.7%		9.6%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL330.00
Upside (Downside)	52%

Share Data

Ticker	AGHOL.TI / AGHOL.IS
Close Price	TL217.20
Current MCap. (TL/US\$ mn)	52,896 / 1,762
Number of Shares (mn)	243.534518
Free Float	34%
3m Avg. Daily Turnover (TL/US\$ mn)	153.01 / 5.33

Trading Range (High / Low) (TL)

1-month	217.20 / 183.50
1-year	251.00 / 76.71
Ytd	217.20 / 200.90

Performance (TL)	Absolute	Relative
1-month	12%	8%
3-month	4%	7%
1-year	142%	47%
Ytd	8%	1%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	81,368	177,978	328,995	529,682	699,181
Gross Profit	24,279	53,631	103,305	159,964	213,250
Opex	-17,508	-34,630	-64,812	-103,606	-136,847
EBITDA (*)	10,195	24,421	47,490	68,685	92,058
Depreciation	3,424	5,420	8,998	12,327	15,655
Operating Income	6,771	19,001	38,492	56,358	76,403
Financial Income/Expense	-1,677	-4,677	-4,112	-6,356	-8,390
Net Other Income/Expense	382	-1,339	-1,184	-1,292	-1,706
Profit (Loss) from Subsidiaries	-552	-300	-555	-894	-1,180
Pre-Tax Income	4,925	12,685	32,640	47,815	65,127
Tax	-1,409	-2,669	-9,792	-14,345	-20,189
Minority Interest/Other	-2,225	-6,215	-13,585	-19,871	-25,230
Net Income	1,291	3,801	9,264	13,600	19,707
Balance Sheet					
Cash and Liquid Assets	16,294	37,282	67,772	98,224	126,440
Inventories	11,423	27,361	52,558	86,099	113,162
Accounts Receivable	5,993	9,091	27,041	43,536	57,467
Other Current Assets	4,341	6,365	9,755	10,778	11,643
Total Current Assets	38,051	80,100	157,125	238,637	308,711
Fixed Assets (**)	56,721	75,927	116,532	159,617	201,494
Financial and Equity Investments	733	1,160	1,350	1,520	1,700
Other Non-Current Assets (**)	16,786	25,018	33,884	40,367	48,200
Total Non-Current Assets	74,241	102,104	151,767	201,504	251,395
Total Assets	112,292	182,204	308,892	440,141	560,106
Short-Term Debt	13,069	21,562	35,857	49,730	59,643
Accounts Payable	23,259	43,003	78,050	127,858	168,048
Other Current Liabilities	7,228	13,293	30,072	48,417	63,910
Total Current Liabilities	43,556	77,857	143,979	226,005	291,601
Long-Term Debt	21,794	32,802	52,635	76,743	101,301
Other Non-Current Liabilities	7,619	10,852	14,853	14,853	14,853
Total Non-Current Liabilities	29,413	43,655	67,488	91,596	116,154
Minority Interest	30,335	46,178	71,178	83,181	94,000
Total Shareholders' Equity	39,323	60,692	97,425	122,540	152,351
Total Liabilities and Equity	112,292	182,204	308,892	440,141	560,106
Cash Flow Statement					
Operating Cash Flow	8,120	13,969	23,552	43,020	49,186
Investing Cash Flow	-8,679	-16,792	-23,017	-29,504	-37,035
Financing Cash Flow	12,281	22,734	38,129	37,980	34,471
Dividends Paid	-70	-60	-200	-483	-600
Free Cash Flow	-1,502	-4,668	-3,117	8,331	5,078
Net Debt	18,569	17,081	20,720	28,248	34,504
Key Ratios					
Gross Margin	29.8%	30.1%	31.4%	30.2%	30.5%
EBITDA Margin	12.5%	13.7%	14.4%	13.0%	13.2%
Net Income Margin	1.6%	2.1%	2.8%	2.6%	2.8%
ROE	4.1%	7.6%	11.7%	12.4%	14.3%
Sales Growth	31%	119%	85%	61%	32%
EBITDA Growth	28%	140%	94%	45%	34%
Earnings Growth	n.m.	194%	144%	47%	45%
Net Debt-to-Equity (x)	0.5	0.3	0.2	0.2	0.2
Net Debt-to-EBITDA (x)	1.8	0.7	0.4	0.4	0.4

Source: Company Financials, KY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Anadolu Grubu Holding founded in 1950, operates in seven sectors with 86 production facilities.

The holding operates in beverages (AEFES & CCOLA), food retail (MGROS), automotive (ASUZU, Anadolu Motor, Celik Motor), Energy & Industry (ADEL, Paravani, and Aslancik).

Core businesses (beer, soft drinks and food retail) comprise of 92% of consolidated net sales and 89% of EBITDA.

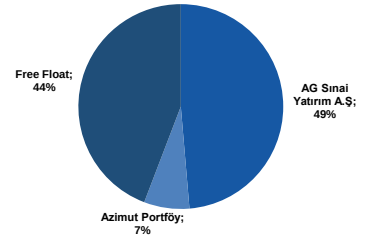
The group also holds a 23% share in TOGG, Türkiye's first major electric car manufacturer.

Potential catalysts and risks

Potential catalysts include; i) stronger than expected demand for the group companies; ii) better operating margins; iii) IPO of TOGG in the upcoming years.

Potential risks include; i) macroeconomic & geopolitical challenges, ii) Regulatory changes & increase in taxation; iii) Fluctuation in raw material prices.

Ownership Structure



ALARKO HOLDING

The de-levered electricity segment

We resume our coverage of Alarko Holding with 'BUY' recommendation with 12M target share price of TL140/shr (previous UR). We welcome the hard currency denominated net cash position of USD163mn as of 9M23. The solo cash position is at USD305mn with 75% of FX based financial assets. We expect TL2bn net FX gains in 2024 which suggests 12% of our TL18bn PBT estimate for 2024. We believe Meram will start distributing dividends in 2024. Whilst, we do not incorporate such contribution to our estimates, we see as an upside potential for Alarko Holding cash position.

Current low level of electricity prices compared to 2022-23 implies limited downside risk for 2024. As of YE23, wholesale spot electricity prices have decreased by ~50% in USD terms from 2022 levels, on average. We assume incremental price hike on national electricity tariffs in 2024. Even if we do not incorporate into our estimates, we believe easing subsidies would positively impact our PBT figure in 2024 through equity pickup contribution. The stock is trading at 24x P/E based on our 2024 estimates which implies 58% discount to its 5-yr historical average.

- Net cash covers heavy CapEx on agriculture.** With an announced investment plan worth ~USD650mn, Alarko Holding decided to enter into agriculture and food businesses. Once they become fully operable, the expected EBITDA is USD175mn, annually. Considering the strong cash position (c.47% of planned investment amount) and de-levered electricity segment, we believe the heavy CapEx should be partially offset by the cash position. Thus, we do not foresee significant financing burden in 2024-25.
- Upside potential in electricity segment.** Amid relieved supply side costs and declining inflation, we assume that subsidies for natural gas and electricity may be lifted. In 2024, we expect a TL13bn contribution from electricity distribution and generation.
- Risks.** i) any price cap, ii) higher coal costs, iii) TL appreciation.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	7,123	253%	8,426	18%	12,807	52%	16,367	28%
EBITDA	593	n.m.	590	-1%	832	41%	982	18%
Net Income	11,441	n.m.	13,314	16%	16,855	27%	21,290	26%
P/E (x)	1.6		2.9		2.4		1.9	
EV/EBITDA (x)	26.4		>50		>50		40.8	
EV/Sales (x)	2.2		4.3		3.3		2.4	
EPS (TL)	26.3		30.6		38.7		48.9	
Div. Yield (*)	0.5%		2.1%		2.4%		3.0%	
FCF Yield	19.5%		-3.4%		7.5%		13.9%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL140.00
Upside (Downside)	48%

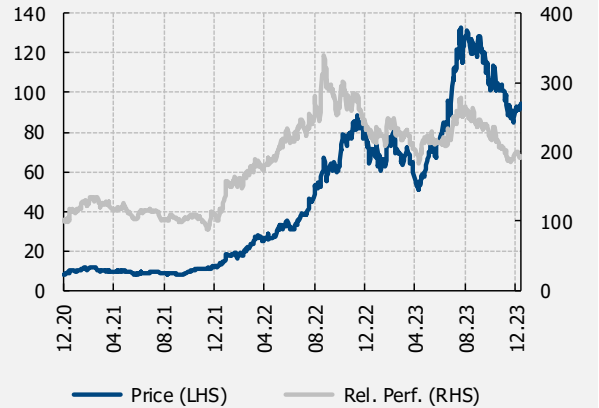
Share Data

Ticker	ALARK.TI / ALARK.IS
Close Price	TL94.55
Current MCap. (TL/US\$ mn)	41,129 / 1,370
Number of Shares (mn)	435
Free Float	31%
3m Avg. Daily Turnover (TL/US\$ mn)	612.18 / 21.40

Trading Range (High / Low) (TL)

1-month	94.55 / 85.10
1-year	132.79 / 50.64
Ytd	94.55 / 90.60

Performance (TL)	Absolute	Relative
1-month	6%	3%
3-month	-20%	-17%
1-year	43%	-13%
Ytd	4%	-2%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	2,017	7,123	8,426	12,807	16,367
Gross Profit	30	932	1,095	1,601	1,964
Opex	162	411	674	1,025	1,309
EBITDA (*)	-83	593	590	832	982
Depreciation	49	72	169	256	327
Operating Income	-132	521	421	576	655
Financial Income/Expense	-57	-102	-590	-704	-900
Net Other Income/Expense	796	1468	2371	2038	2615
Profit (Loss) from Subsidiaries	925	9623	11832	15698	19738
Pre-Tax Income	1,532	11,510	14,035	17,607	22,107
Tax	52	354	-60	-96	-123
Minority Interest/Other	309	423	661	657	694
Net Income	1,274	11,441	13,314	16,855	21,290
Balance Sheet					
Cash and Liquid Assets	1,325	5,810	9,007	7,906	11,912
Inventories	279	586	693	1,053	1,345
Accounts Receivable	535	1,626	1,923	2,923	3,736
Other Current Assets	295	575	680	1,033	1,320
Total Current Assets	2,434	8,596	12,303	12,916	18,314
Fixed Assets (**)	974	1,054	3,661	8,830	15,353
Financial and Equity Investments	2,471	11,740	18,068	27,759	35,558
Other Non-Current Assets (**)	1,252	3,283	3,947	4,832	5,738
Total Non-Current Assets	4,698	16,077	25,676	41,421	56,649
Total Assets	7,132	24,673	37,980	54,336	74,962
Short-Term Debt	165	1,554	4,142	5,666	7,240
Accounts Payable	385	1,069	1,264	1,921	2,455
Other Current Liabilities	1,577	4,848	5,241	5,590	6,783
Total Current Liabilities	2,126	7,470	10,647	13,176	16,479
Long-Term Debt	52	141	281	261	241
Other Non-Current Liabilities	395	811	974	1,304	1,721
Total Non-Current Liabilities	447	951	1,256	1,565	1,962
Minority Interest	867	1,320	1,980	2,637	3,331
Total Shareholders' Equity	4,559	16,252	26,077	39,594	56,521
Total Liabilities and Equity	7,132	24,673	37,980	54,336	74,962
Cash Flow Statement					
Operating Cash Flow	844	3,372	5,265	13,716	16,951
Investing Cash Flow	-174	224	-6,582	-10,632	-11,253
Financing Cash Flow	-106	953	6,301	6,929	8,512
Dividends Paid	-60	-100	-700	-978	-1,226
Free Cash Flow	670	3,596	-1,317	3,084	5,698
Net Debt	-1,108	-4,116	-4,584	-1,979	-4,430
Key Ratios					
Gross Margin	1.5%	13.1%	13.0%	12.5%	12.0%
EBITDA Margin	n.m.	8.3%	7.0%	6.5%	6.0%
Net Income Margin	63.2%	160.6%	158.0%	131.6%	130.1%
ROE	34.2%	110.0%	62.9%	51.3%	44.3%
Sales Growth	95%	253%	18%	52%	28%
EBITDA Growth	n.m.	n.m.	-1%	41%	18%
Earnings Growth	59%	n.m.	16%	27%	26%
Net Debt-to-Equity (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Net Debt-to-EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

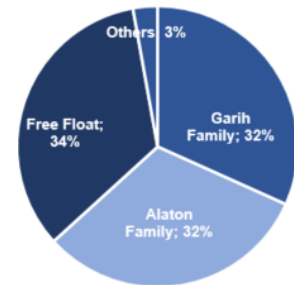
"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

The company is one of the leading energy players in the BIST-100. Through its JV with Cengiz Holding it has 50% share in Meram DisCo and 1,320 MW coal power plant in Cnakkale. These two assets are the main value drivers for the company. It also owns two hydro power plants with 87MW installed capacity and one solar power plant with 50.6MW installed capacity. The company's contracting arm, once the flagship operation, carries 1Q22 backlog of c.US\$0.9bn. The other business segments of the company are tourism, industrials (listed Alarko Carrier) and REIT (Alarko REIT).

We used the Net Asset Value method for Alarko Holding and valued each business segment separately. For electricity segment, we implemented the Discounted Cash Flow. We assume 11% CAGR NOPAT for electricity distribution with 4% FCF. Additionally, for generation segment, we assume 12% CAGR NOPAT with 19% FCF yield. For publicly traded JV Alarko Carrier and subsidiary Alarko REIT, we used the current market capitalization. For contracting and tourism, each constitutes 10% of our NAV, we valued them with comparable multiples.

Ownership Structure



ENKA INSAAT

A defensive choice for 2024

We resume our coverage for Enka due to the change in the analyst. Our recommendation is “BUY” and we set a 12M target share price of TL49.19/sh which offers 41% return potential in light of our new macro assumptions and operational forecasts. Enka stands out as a defensive choice thanks to its net cash position of USD4.7bn as of 9M23, making up ~70% of its mcap. We expect foreign government bonds, which make up ~55% of the investment portfolio, to have a positive impact on the Company's earnings thanks to potential interest rate cuts globally. The low share of construction projects in Turkey in the backlog limits the negative impact of the tight domestic monetary policy. Likewise, we think that the loosening signals of the FED's monetary policy will revitalize the global construction industry and Enka will be positively affected. The stock trades at 2024E 0.8x EV/EBITDA which we perceive an attractive level and provide a defensive nature.

- **Strong net cash position and defensive structure.** Enka looks attractive with its net cash position of USD4.7bn in its latest financial statements. We expect foreign government bonds and stocks, which constitute the dominant part of the investment portfolio, to have a positive impact on earnings as the FED starts to cut interest rates.
- **Backlog suitable for macro view.** We see the country-by-country diversification of the backlog in the construction segment and the relatively low share of Turkey, where tight monetary policy is implemented, and Russia, where risks increase due to the war, as factors that reduce the risk factor. Total backlog stands at USD4.3bn.
- **Supportive outlook in non-construction segments.** We view the high occupancy rates in the real estate rental segment as positive for Enka and believe that they contribute to the defensive outlook. We also find it useful to follow the energy investment projects in Turkey and Bulgaria, which are planned to be completed in 2025.
- **Risks - i)** Lower than expected additions to backlog, **ii)** A hawkish stance in global interest policies that will last longer than expected, **iii)** Instability in the countries where Enka operate, **iv)** Energy sector regulations

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	61,804	140%	80,134	30%	134,100	67%	191,220	43%
EBITDA	13,986	105%	16,553	18%	29,014	75%	42,886	48%
Net Income	1,961	-62%	14,443	n.m.	24,609	70%	33,498	36%
P/E (x)	54.0		13.0		8.5		6.3	
EV/EBITDA (x)	1.8		3.6		0.8		1.8	
EV/Sales (x)	0.4		0.7		0.2		0.4	
EPS (TL)	0.3		2.4		4.1		5.6	
Div. Yield (*)	4.4%		2.6%		2.4%		3.1%	
FCF Yield	6.9%		2.9%		5.5%		13.6%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL49.19
Upside (Downside)	41%

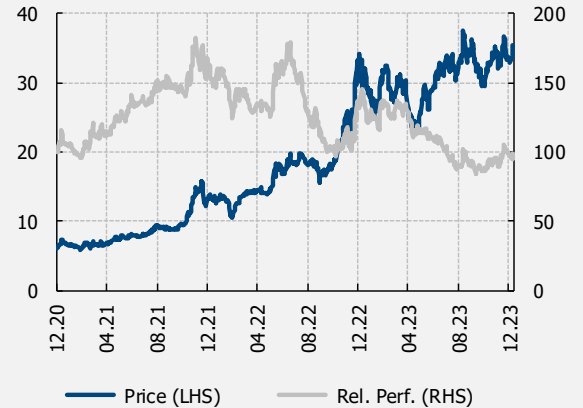
Share Data

Ticker	ENKAI.TI / ENKAI.IS
Close Price	TL34.98
Current MCap. (TL/US\$ mn)	209,880 / 6,992
Number of Shares (mn)	6000
Free Float	12%
3m Avg. Daily Turnover (TL/US\$ mn)	917.67 / 31.92

Trading Range (High / Low) (TL)

1-month	36.65 / 32.84
1-year	37.62 / 22.82
Ytd	35.36 / 32.84

Performance (TL)	Absolute	Relative
1-month	4%	0%
3-month	10%	14%
1-year	11%	-32%
Ytd	4%	-2%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

Yapı Kredi Invest Research
YKY Arastirma@yapikredi.com.tr

Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	25,782	61,804	80,134	134,100	191,220
Gross Profit	6,709	14,297	17,386	30,075	42,713
Opex	-1,001	-1,823	-2,966	-4,653	-5,243
EBITDA (*)	6,809	13,986	16,553	29,014	42,886
Depreciation	1,101	1,511	2,133	3,592	5,416
Operating Income	5,708	12,475	14,420	25,421	37,470
Financial Income/Expense	0	0	0	0	0
Net Other Income/Expense	1258	-8695	2990	3465	0
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	6,966	3,779	18,499	32,704	45,020
Tax	-1,890	-1,665	-4,007	-8,046	-11,473
Minority Interest/Other	83	-153	-50	-49	-49
Net Income	5,159	1,961	14,443	24,609	33,498
Balance Sheet					
Cash and Liquid Assets	56,911	46,828	74,750	104,650	136,045
Inventories	3,409	6,962	8,252	13,680	19,530
Accounts Receivable	3,676	5,852	9,880	16,533	23,575
Other Current Assets	4,071	6,478	8,670	8,670	8,670
Total Current Assets	68,067	66,120	101,552	143,533	187,820
Fixed Assets (**)	11,828	15,329	21,630	36,433	54,931
Financial and Equity Investments	13,272	39,130	58,695	88,042	132,063
Other Non-Current Assets (**)	28,157	39,863	53,815	72,650	98,077
Total Non-Current Assets	53,258	94,321	134,140	197,125	285,072
Total Assets	121,325	160,441	235,691	340,658	472,892
Short-Term Debt	804	1,145	578	578	578
Accounts Payable	4,643	8,436	9,455	15,675	22,378
Other Current Liabilities	17,956	18,126	22,626	32,703	45,398
Total Current Liabilities	23,403	27,708	32,660	48,956	68,354
Long-Term Debt	1,395	2,378	2,714	2,714	2,714
Other Non-Current Liabilities	6,669	7,948	15,520	22,767	26,718
Total Non-Current Liabilities	8,063	10,326	18,234	25,481	29,432
Minority Interest	881	1,399	1,399	1,399	1,399
Total Shareholders' Equity	88,978	121,009	179,101	247,143	339,307
Total Liabilities and Equity	121,325	160,441	229,995	321,580	437,093
Cash Flow Statement					
Operating Cash Flow	6,544	2,665	6,897	15,093	45,419
Investing Cash Flow	-1,142	-2,293	-3,914	-6,499	-9,032
Financing Cash Flow	3,855	2,603	7,341	7,246	3,951
Dividends Paid	-2,000	-3,920	-4,900	-5,000	-6,500
Free Cash Flow	5,263	7,263	5,456	11,569	28,604
Net Debt	-67,984	-82,434	-130,153	-189,400	-132,753
Key Ratios					
Gross Margin	26.0%	23.1%	21.7%	22.4%	22.3%
EBITDA Margin	26.4%	22.6%	20.7%	21.6%	22.4%
Net Income Margin	20.0%	3.2%	18.0%	18.4%	17.5%
ROE	7.5%	1.9%	9.6%	11.5%	11.4%
Sales Growth	122%	140%	30%	67%	43%
EBITDA Growth	141%	105%	18%	75%	48%
Earnings Growth	15%	-62%	n.m.	70%	36%
Net Debt-to-Equity (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Net Debt-to-EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Enka has three main areas of activity; i) construction, ii) real estate rental and iii) energy.

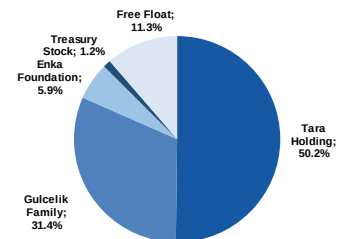
In the construction segment, the lion's share is taken by Special Projects, North Macedonia, Serbia and the United Kingdom, with a rate of up to 70% of total backlog.

In the real estate rental segment, the company operates in Moscow and St. Petersburg. It generates rental income from the office and retail spaces it owns.

In the energy segment, it is one of the leading players in the sector with a total installed capacity of 4,085 MW, primarily with natural gas power plants. The company plans to increase its installed capacity by 23% with its ongoing energy investments in Turkey and Bulgaria.

Risks -- i) A lower amount of new construction projects than expected **ii)** A hawkish stance in global interest policies that will last longer than expected **iii)** Instability in the countries where Enka operate **iv)** The possibility of regulation that may suppress profitability in the energy market

Ownership Structure



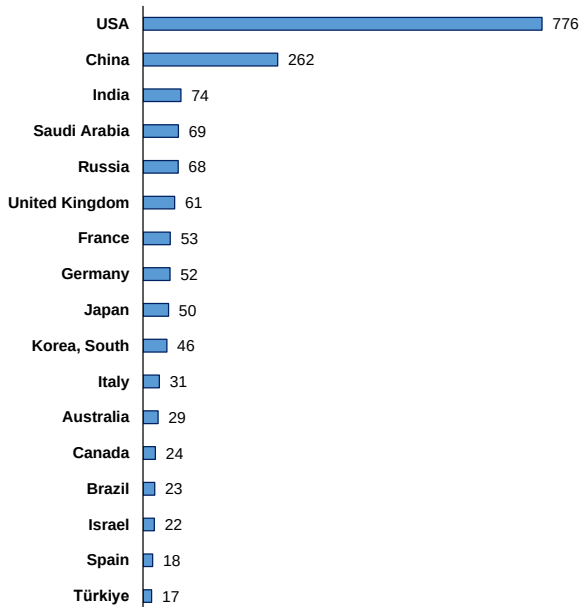
Domestic and national

The Russian invasion as a milestone for budgets. According to the latest Stockholm International Peace Research Institute (SIPRI) figures total military spending increased by c.3.7% in 2022, worldwide, scaling a historic high of USD2.2tn. Due to the deteriorating global and regional security environment in recent years, the continuous rise in military spending among countries is inevitable. Following the outbreak of the Russia-Ukraine war, various countries began to announce upward military spending targets in 2023 in accordance with NATO's 2% target. In real terms, Central and Western Europe states in 2022 surpassed their 1989 post- Cold War spending. We foresee the current momentum of military and security funding being sustained in the medium term.

NATO's 2% target is now imminent. In 2006, NATO Defense Ministers agreed on minimum 2% of GDP equivalent defense spending to maintain the alliance's readiness. In 2022, when excluding USA, defense spending for the alliance hit c.1.7% of GDP, on average (c.2.6% including USA). Spending ramp-up announcements from member states for 2023 and beyond show the severity of the pledges. NATO members without the contribution of USA, should therefore reach the committed minimum 2% threshold. Secretary-General Jens Stoltenberg has said that announced military spending plans imply a USD46bn increase for 2024.

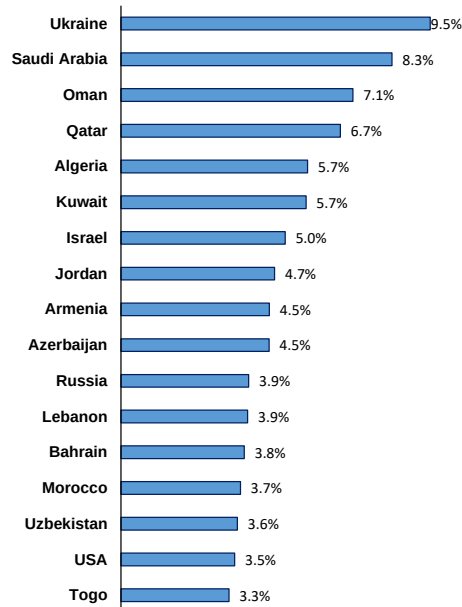
A&D industry reshaped in technological terms. The rise in military spending is expected to lead innovation in defense applications in order to cope with emerging technological needing. According to the Deloitte 2024 Aerospace and Defense Industry Outlook report The US Department of Defense (DoD) is considering USD1.8bn worth of AI applications for the assessment and evaluation for joint warfare in 2024. Global Aerospace and Defense (A&D) industry R&D expenditure on cutting-edge technologies should be of similar size. Thus, considering the current demand and revived supply chain, we expect the global defense industry to experience robust 2024.

Exhibit 1: Military Spending (mn USD) (5-yr avg.)



Source: SIPRI, YKY Research

Exhibit 2: Military Spending as a % GDP (5-yr avg.)



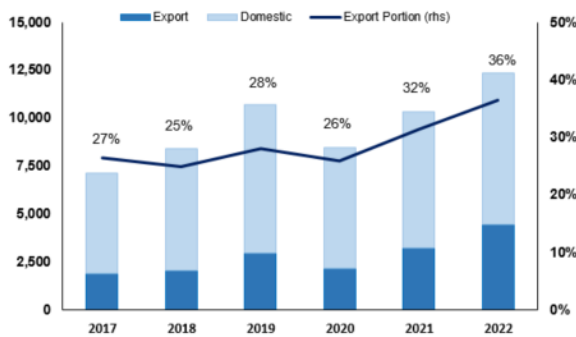
Source: SIPRI, YKY Research

Türkiye renews defense budget 2.5-fold. In October 2023, Vice President Cevdet Yılmaz announced Türkiye's defense and security budget for 2024 of over USD40bn. The amount corresponds to a c.150% year-on-year increase in USD terms compared to USD16bn for 2023.

SSB pipeline signals upcoming potential projects. The Presidency of the Republic of Türkiye Defense Industry Agency (SSB) plans to realize over 700 projects with an estimated value of USD70bn. Considering Türkiye's annual USD15-16bn military spend, approximately 4-5 years of project initiation is about to materialize.

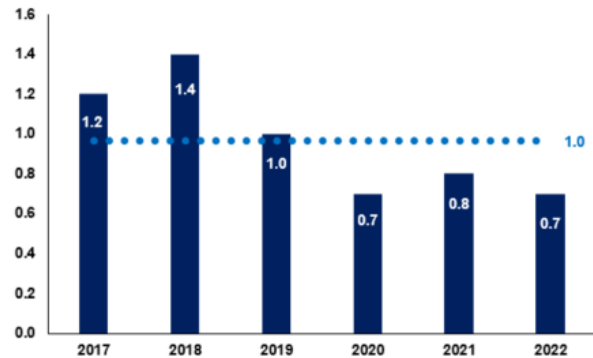
Softening foreign policy continues. Türkiye has been pursuing constructive and balanced foreign policy, especially since the 2023 Presidential Elections. The recent shift in country outlook is based on its intermediary role in the post- Russia-Ukraine war grain corridor, positive relations with NATO allies regarding Sweden's accession approval, and recovering economic cooperation with the Gulf States. Considering the aforementioned improvements and the Ukraine war, we expect Türkiye's role in NATO to be appreciated via defense-related collaboration.

Exhibit 3: Türkiye A&D Revenues (mn USD)



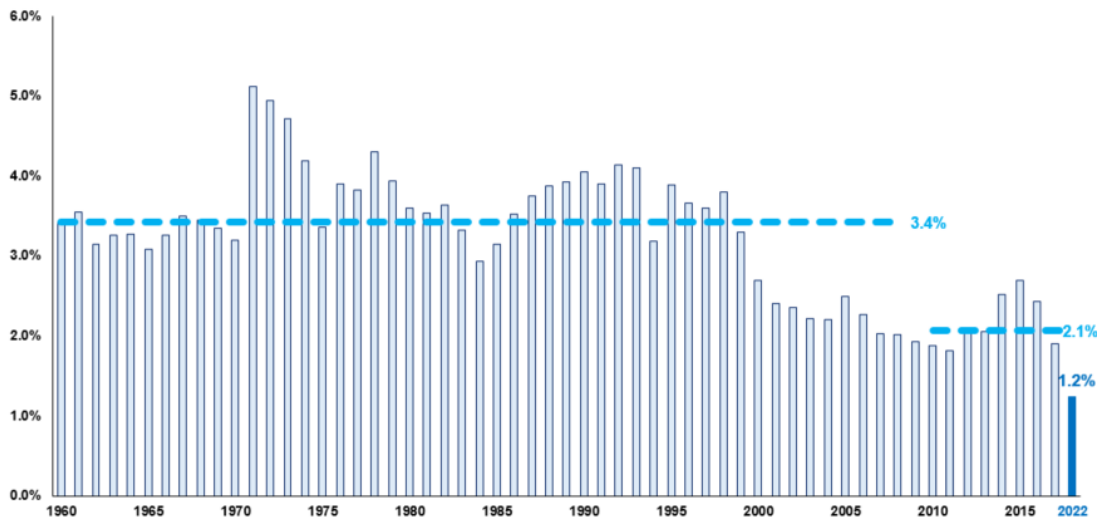
Source: SASAD, Wood Research, YKY Research

Exhibit 4: Türkiye A&D Book-to-Bill Ratio



Source: SASAD, Wood Research, YKY Research

Exhibit 5: Turkish Military Spending as a % of GDP



Source: SIPRI, YKY Research

ASELSAN

Contract flow not cash

We resume our coverage for Aselsan due to the change in responsible analyst. Our recommendation is 'HOLD' and we set a 12M target share price of TL60/shr. We welcome the recent backlog of USD11bn and foresee further additions thanks to increased military spending budget of Türkiye for 2024 at USD40bn vs USD16bn for 5-yr average. We estimate a robust pipeline of prospect additions in following years through the main client, SSB (the Presidency of the Republic of Türkiye Defence Industry Agency) (c.38% the current backlog). However, without improvement in collection terms, we foresee unchanged NWC/Sales at 55% in 2024-33 (vs three-year average of 53%). Therefore, we still expect negative free cash flow for 2024.

We believe Aselsan may benefit from higher international demand. Thus, we expect 15% export share in 2024 (vs 11% as of 9M23). Assuming better collections terms vs domestic sales, we welcome the prospect of export share expansion. The stock is trading at 8.8x EV/EBITDA and 8.6x P/E based on our 2024 estimates and implies 28% and 10% discounts, respectively to its 5-yr historical averages.

- **Rising military budget comes with NWC burden.** Approx. USD70bn of defence and military projects in the SSB pipeline are to be initiated over the coming years. We foresee the USD11bn backlog as of 3Q23 reaching a USD12bn level by 2025 thanks to the aforementioned pipeline. But, we expect NWC requirement burden under financing needing due to 210+ days of cash conversion cycle as of 3Q23 (vs 200 of 10-yr avg.).
- **Risks.** i) deterioration in collection terms, ii) foreign policy tension, iii) TL appreciation.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	35,282	75%	62,901	78%	102,760	63%	137,619	34%
EBITDA	9,472	72%	16,055	69%	25,616	60%	33,897	32%
Net Income	11,916	67%	19,796	66%	25,265	28%	27,064	7%
P/E (x)	5.6		7.8		8.6		8.0	
EV/EBITDA (x)	7.2		10.2		8.8		6.8	
EV/Sales (x)	1.9		2.6		2.2		1.7	
EPS (TL)	5.2		8.7		11.1		11.9	
Div. Yield (*)	0.7%		0.3%		0.4%		0.4%	
FCF Yield	2.2%		-6.7%		-3.9%		-12.2%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL60.00
Upside (Downside)	26%

Share Data

Ticker	ASELS.TI / ASELS.IS
Close Price	TL47.54
Current MCap. (TL/US\$ mn)	216,782 / 7,222
Number of Shares (mn)	4560
Free Float	26%
3m Avg. Daily Turnover (TL/US\$ mn)	2,434.43 / 84.82

Trading Range (High / Low) (TL)

1-month	49.60 / 43.02
1-year	49.60 / 19.47
Ytd	47.64 / 44.98

Performance (TL)	Absolute	Relative
1-month	4%	1%
3-month	11%	14%
1-year	70%	3%
Ytd	6%	-1%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	20,139	35,282	62,901	102,760	137,619
Gross Profit	6,649	11,783	20,757	33,911	45,414
Opex	1,579	2,900	5,787	10,276	15,138
EBITDA (*)	5,502	9,472	16,055	25,616	33,897
Depreciation	432	589	1,085	1,981	3,621
Operating Income	5,070	8,883	4,850	14,950	17,594
Financial Income/Expense	4,348	-2,216	-1,234	-1,243	-1,935
Net Other Income/Expense	-2222	3231	16174	11510	11352
Profit (Loss) from Subsidiaries	-3	18	-25	13	13
Pre-Tax Income	7,196	9,917	19,766	25,230	27,024
Tax	-69	1,969	0	0	0
Minority Interest/Other	-3	-48	30	35	40
Net Income	7,131	11,916	19,796	25,265	27,064
Balance Sheet					
Cash and Liquid Assets	2,492	5,687	3,147	7,168	8,995
Inventories	7,639	12,593	23,093	35,878	50,236
Accounts Receivable	9,803	14,888	31,020	45,804	65,982
Other Current Assets	3,241	5,131	7,641	11,245	14,402
Total Current Assets	23,175	38,299	64,901	100,095	139,615
Fixed Assets (**)	5,700	9,859	19,813	36,206	44,830
Financial and Equity Investments	2,149	4,288	4,717	5,189	5,708
Other Non-Current Assets (**)	15,389	23,597	26,255	35,015	55,257
Total Non-Current Assets	23,238	37,744	50,784	76,411	105,794
Total Assets	46,413	76,044	115,685	176,506	245,409
Short-Term Debt	5,070	5,603	10,762	14,139	21,152
Accounts Payable	6,039	9,775	17,319	28,860	39,408
Other Current Liabilities	5,640	14,274	14,887	15,526	16,191
Total Current Liabilities	16,750	29,651	42,968	58,524	76,752
Long-Term Debt	333	1,070	856	685	548
Other Non-Current Liabilities	3,495	5,462	10,090	21,389	33,445
Total Non-Current Liabilities	3,828	6,531	10,945	22,073	33,993
Minority Interest	272	224	251	281	315
Total Shareholders' Equity	25,835	39,861	61,772	95,908	134,664
Total Liabilities and Equity	46,413	76,044	115,685	176,506	245,409
Cash Flow Statement					
Operating Cash Flow	2,998	6,681	2,040	10,970	-3,709
Investing Cash Flow	-2,511	-5,205	-12,415	-19,461	-22,726
Financing Cash Flow	2,025	1,285	5,101	3,377	18,933
Dividends Paid	-400	-460	-400	-818	-970
Free Cash Flow	488	1,476	-10,376	-8,492	-26,435
Net Debt	2,911	985	8,470	7,655	12,705
Key Ratios					
Gross Margin	33.0%	33.4%	33.0%	33.0%	33.0%
EBITDA Margin	27.3%	26.8%	25.5%	24.9%	24.6%
Net Income Margin	35.4%	33.8%	31.5%	24.6%	19.7%
ROE	32.5%	36.3%	39.0%	32.0%	23.5%
Sales Growth	25%	75%	78%	63%	34%
EBITDA Growth	40%	72%	69%	60%	32%
Earnings Growth	60%	67%	66%	28%	7%
Net Debt-to-Equity (x)	0.1	0.0	0.1	0.1	0.1
Net Debt-to-EBITDA (x)	0.5	0.1	0.5	0.3	0.4

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

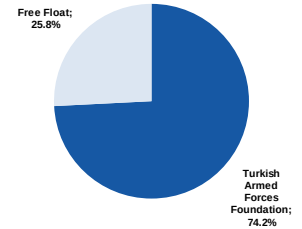
"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Founded in 1975 the company is a defence sector contractor developing and producing communication and information technologies, radar and electronic warfare, avionics, unmanned, weapon, air defence & missile, control, transportation, security traffic and medical systems. As of 3Q23, Aselsan current backlog is at c.USD11bn. Through promising SSB pipeline, we foresee USD3-5bn of new additions to Aselsan, annually by 2030.

We used the Discounted Cash Flow method for Aselsan. In the long-run, we assume Aselsan's NOPAT margin to reach above 25% (vs 9M23 20%) via added value technological products. We assume 25% NOPAT CAGR between 2024-2033 in TL terms with an annual FCF yield of 16%, on average. Our TL WACC is 25%.

Ownership Structure



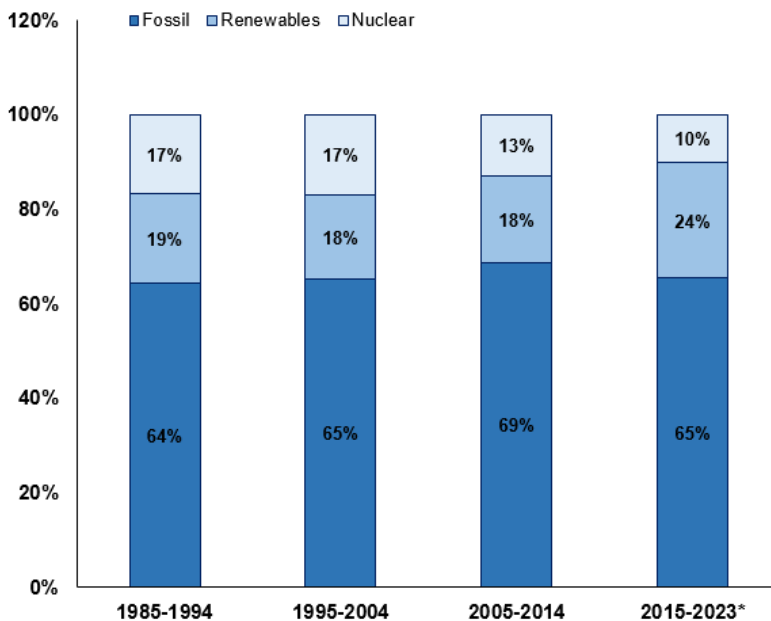
Time to renew

Electricity demand is expected to ease. Global economic slowdown and energy crisis are expected to have stifled global electricity consumption in 2023 before acceleration in 2024. According to a International Energy Agency (IEA) Electricity Market Report, global electricity use is set to grow by 1.9% in 2023, shy of the 2.4% global GDP growth projection. The report's US and EU demand estimates show contraction of 1.7% and 3.0% for the two years. In particular, EU demand contraction is the reflection of lower utilization among energy-intensive industries due to elevated energy costs. However, due to post-pandemic re-opening and stimulus efforts, Chinese demand is expected to increase by 5.3% in 2024. The IEA expects global demand to recover by 3.3% in 2024 thanks to a better outlook for advanced economies in terms of energy prices and sufficient generation via renewables.

Structural shift in generation is occurring. After rising in 2022, coal-fired generation is declining in 2023 due to the increased share of renewables. Drought-led low hydropower output and costly natural gas, caused electricity generation via coal recorded 1.7% growth in 2022, but is expected to decrease slightly by 0.4% in 2023. From 2024 onwards, renewables are set to become the primary energy source in total generation. Considering the ongoing capacity increases, we expect renewables' share to tilt 35-40% levels in the medium term.

Nothing to worry about on prices, for now. Due to mild weather and renewables output, wholesale electricity prices have been experiencing downward move. Increasing renewables share result lack of generation flexibility according to changing demand. Eased energy commodity prices continue to suppress wholesale prices. In the EU, prices have tilted to the 2019 levels of EUR60-70/MWh. Without abnormal weather conditions or geopolitical issues, Europe's electricity price challenge seems to be resolved. Yet, negative prices imply the need for immediate storage investments on the continent.

Exhibit 1: Global Electricity Generation Share by Source (annual average)



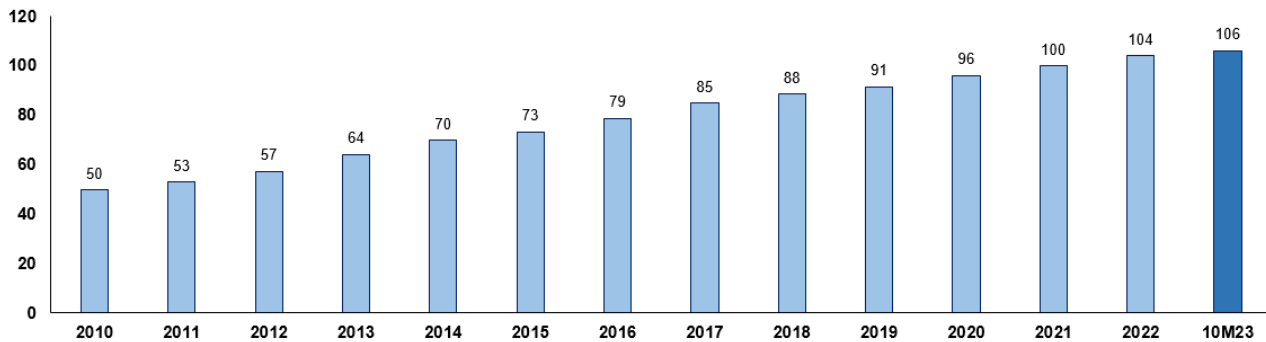
Source: IMF, IEA, YKY Research

Türkiye exceeds 100GW capacity. The installed capacity of Türkiye has exceeded 106GW as of year-end 2023. The capacity decomposition is as follows: 29.8% hydro, 23.9% natural gas, 20.5% coal, 11.0% wind, 10.6% solar, 1.6% geothermal, and 2.6% other sources. In 2023, the total number of power plants increased to 13k. In terms of renewable energy capacity, Türkiye ranked 5th and 12th in Europe and the world, respectively. According to the Türkiye National Energy Plan of 2022, installed capacity is planned to reach 190 GW as of 2035.

Renewables investment hype continues. According to the Türkiye National Energy Plan of 2022, renewable energy capacity is planned to reach 118GW by 2030 from 56GW at year-end 2023. In July 2023, Türkiye and the UAE signed a series of agreements for USD30bn worth of energy projects. Renewable energy investments are expected to materialize. In accordance with a +65% renewable share projection, 3.5GW and 6.5GW solar and wind (incl. offshore wind) capacity stands to be added to the installed capacity, respectively.

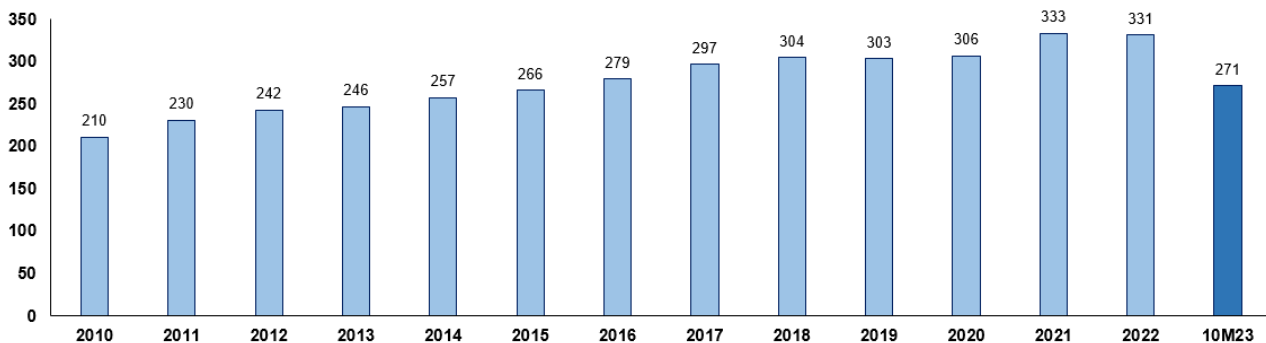
Price cap lifted. As of October 2023, the energy source based price cap application was lifted and the market returned to spot prices via EXIST. Due to eased fossil fuel costs, spot prices have already tilted to ceiling prices and a further 6-month extension was not exercised. The current spot price is USD75/MWh. Through muted commodity prices, renewable/nuclear capacity additions, and a weaker demand environment, spot prices are expected to head south in the long run.

Exhibit 2: Türkiye Installed Capacity (GW)



Source: EMRA, YKY Research

Exhibit 3: Türkiye Electricity Demand (TWh)

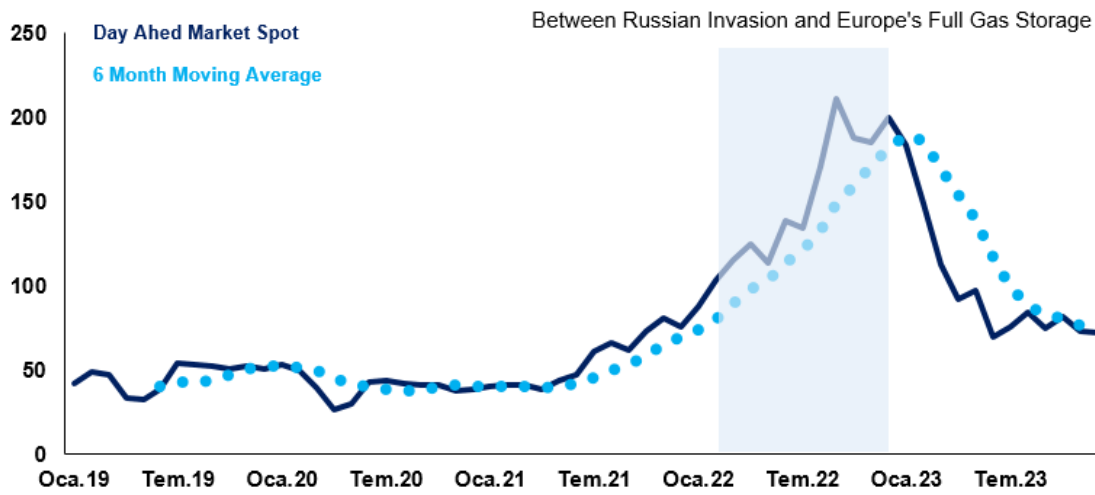


Source: EMRA, YKY Research

Storage pre-license applications have been suspended. In October 2023, Türkiye's energy watchdog, EMRA, has announced that renewable energy based storage pre-license project applications have been suspended. Since November 2022, c.6k of projects have applied and only 399 have been granted a pre-license. The total installed power of applications is c.300GW. EMRA would have decided upon such a suspension due to the lack of infra- and superstructure capacity as compared to applied installed power.

Household subsidies prevail. On October 1, 2023, EMRA hiked end-user electricity prices for industry and legal persons by 25% and 28%, respectively. For households, 3Q23 prices were unchanged at TRY1,132/MWh. For the current tariff period, 1Q24, EMRA has kept prices unchanged. Turkish household use electricity prices are among the lowest in Europe. Thanks to ongoing subsidies, elevated natural gas costs on BOTAS have not been fully reflected to national tariffs to shield the end-user.

Exhibit 4: Türkiye Spot Price (USD/Mwh)



Source: EXIST, YKY Research

Grid investments reflect in capacity increases. Based on data of the Association of Electricity Distribution System Operators, distribution companies have realized USD2.3bn and USD2.4bn of investments in 2020 and 2021, respectively. In 2022, due to the inflationary environment in Türkiye, the USD-based invested amount has deflated to USD1.7 bn. In parallel to capacity increase, electricity grid investments should also be commissioned. According to Energy and Natural Resources Minister Alparslan Bayraktar, Türkiye must realize USD10bn grid investment by 2030.

Türkiye is decisive on battery competition. Domestic battery manufacturing with high locality has been mandated by the government, especially in light of recent geopolitical issues. The pandemic and Russia-Ukraine war explicitly proved the importance of electricity security via alternative energy sources. Togg's lithium-ion battery initiative, Siro, has already manufactured and tested a prototype in August 2022. By 2035, Siro plans to achieve annual production capacity of 50GWh. Additionally via Aspilsan, a Turkish Armed Forces Foundation subsidiary, domestic lithium-ion cell production has been pursued with capacity of 220MWh.

AKSA ENERJİ

Virtually a high yield eurobond

We resume our coverage for Aksa Enerji due to change in responsible analyst. Our recommendation 'BUY' and we set a 12M target price of TL55/shr. We welcome the recently announced international projects in hard currency. Increasing share of guaranteed capacity payments through PPAs suggests foreseeable cash flow structure for Aksa Enerji. Together with the latest Senegal deal, PPA based powerplants' share became 67% in 4,055MW total portfolio (excl. renewables pre-licenses). We believe ~64% share of EBITDA generation from international projects' will be maintained in the long-term. Additionally, in Türkiye, the current normalized spot electricity prices of USD72/MWh (comparing to post-pandemic high of USD210/MWh) suggests limited downside in our opinion. Therefore, we foresee USD75/MWh spot price in 2024, on average.

Collection is no more a major issue thanks to recovered terms in Ghana and Northern Cyprus. Thus, we think the respective risk might be already priced in. The stock has underperformed the benchmark index by 48% in TL terms and it trades at 5.3x EV/EBITDA and 6.8x P/E on our 2024 estimates and implies 23% and 46% discount, respectively to its 5-yr historical averages.

- Kazakhstan, Uzbekistan, and now Senegal.** Aksa Enerji continues to expand its international investments via PPA based power plants. Additional to ongoing investments with the 240MW Kyzlordu and 430MW Talimerjan investments, it has announced a 255MW power plant investment in Senegal. Accordingly, total capacity rises to 4,055MW, excl. pre-licensed renewables, implying 28% CAGR between 2020-2023. Once they become fully operable, we believe Aksa Enerji will be the largest private sector electricity generating company, incl. international projects, in Türkiye.
- Guaranteed EBITDA contribution via PPAs.** Based on the PPA model, power plants are guaranteed by capacity payment in hard currency. We foresee resilient EBITDA share from international investments at +60% in 2024 (vs 64% as of 9M23 due to the cap in Türkiye). Thanks to recovered free cash flow, we expect Aksa Enerji to distribute gross dividend of 3% in 2024.
- Risks.** i) weak prices, ii) economic slowdown, iii) TL appreciation.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	45,638	229%	27,415	-40%	45,535	66%	57,336	26%
EBITDA	6,401	159%	7,128	11%	10,104	42%	12,161	20%
Net Income	4,562	172%	4,437	-3%	5,897	33%	7,341	24%
P/E (x)	7.2		9.7		6.8		5.4	
EV/EBITDA (x)	6.6		7.8		5.3		4.5	
EV/Sales (x)	0.9		2.0		1.2		1.0	
EPS (TL)	3.7		3.6		4.8		6.0	
Div. Yield (*)	2.1%		2.3%		3.3%		5.2%	
FCF Yield	0.1%		-0.6%		21.6%		29.0%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL55.00
Upside (Downside)	69%

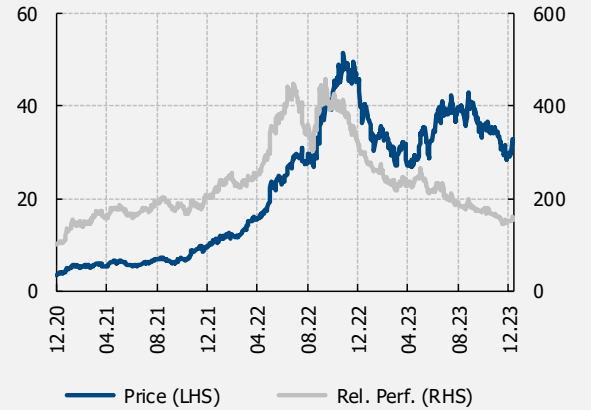
Share Data

Ticker	AKSEN.TI / AKSEN.IS
Close Price	TL32.50
Current MCap. (TL/US\$ mn)	39,856 / 1,328
Number of Shares (mn)	1226.338236
Free Float	21%
3m Avg. Daily Turnover (TL/US\$ mn)	227.52 / 7.93

Trading Range (High / Low) (TL)

1-month	32.98 / 28.52
1-year	42.92 / 26.80
Ytd	32.98 / 29.20

Performance (TL)	Absolute	Relative
1-month	1%	2%
3-month	-14%	-11%
1-year	-14%	-48%
Ytd	9%	2%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	13,887	45,638	27,415	45,535	57,336
Gross Profit	2,079	5,448	6,179	9,377	12,161
Opex	173	319	580	891	1,141
EBITDA (*)	2,474	6,401	7,128	10,104	12,161
Depreciation	568	1,272	1,529	2,349	3,009
Operating Income	1,906	5,129	5,599	7,755	9,152
Financial Income/Expense	357	664	1,157	1,777	1,935
Net Other Income/Expense	138	188	-260	-459	-600
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	2,400	5,981	6,495	9,072	10,487
Tax	-565	-1,096	-1,559	-2,268	-2,622
Minority Interest/Other	155	324	500	907	524
Net Income	1,680	4,562	4,437	5,897	7,341
Balance Sheet					
Cash and Liquid Assets	1,118	1,244	2,254	5,070	7,109
Inventories	225	244	751	1,248	1,571
Accounts Receivable	5,328	9,217	10,140	13,723	18,065
Other Current Assets	458	711	1,024	1,573	2,015
Total Current Assets	7,129	11,416	14,169	21,613	28,760
Fixed Assets (**)	13,260	21,641	31,118	47,809	73,453
Financial and Equity Investments	0	0	0	0	0
Other Non-Current Assets (**)	260	175	986	1,515	2,328
Total Non-Current Assets	13,520	21,816	32,104	49,324	75,781
Total Assets	20,650	33,233	46,273	70,937	104,541
Short-Term Debt	3,159	4,743	6,498	7,497	8,756
Accounts Payable	2,020	2,127	3,023	5,021	6,323
Other Current Liabilities	1,093	1,110	1,596	2,453	3,768
Total Current Liabilities	6,272	7,980	11,118	14,971	18,847
Long-Term Debt	2,503	3,865	5,276	6,275	7,534
Other Non-Current Liabilities	1,290	2,429	3,492	5,365	8,243
Total Non-Current Liabilities	3,793	6,294	8,768	11,641	15,777
Minority Interest	932	1,750	3,027	4,650	5,957
Total Shareholders' Equity	10,584	18,959	26,387	44,325	69,917
Total Liabilities and Equity	20,650	33,233	46,273	70,937	104,541
Cash Flow Statement					
Operating Cash Flow	1,055	1,869	9,240	12,604	16,581
Investing Cash Flow	-2,747	-1,850	-9,477	-3,998	-5,034
Financing Cash Flow	2,040	1,498	1,688	-2,975	-8,147
Dividends Paid	0	-700	-1,000	-1,331	-2,064
Free Cash Flow	-1,692	19	-237	8,606	11,547
Net Debt	4,545	7,365	9,520	8,703	9,181
Key Ratios					
Gross Margin	15.0%	11.9%	22.5%	20.6%	21.2%
EBITDA Margin	17.8%	14.0%	26.0%	22.2%	21.2%
Net Income Margin	12.1%	10.0%	16.2%	13.0%	12.8%
ROE	22.1%	30.9%	19.6%	16.7%	12.9%
Sales Growth	92%	229%	-40%	66%	26%
EBITDA Growth	61%	159%	11%	42%	20%
Earnings Growth	257%	172%	-3%	33%	24%
Net Debt-to-Equity (x)	0.4	0.4	0.4	0.2	0.1
Net Debt-to-EBITDA (x)	1.8	1.2	1.3	0.9	0.8

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

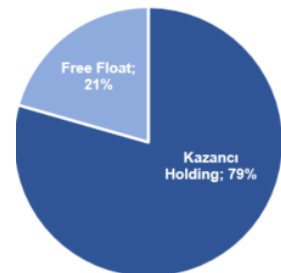
Company Description

Aksa Enerji is a global energy company that delivers all steps in power plant installation procedures- from project development to procurement, construction to installation-in house with business operations in eight countries.

The company owns two NGPPs with a total installed capacity of 1047MW and a CPP with an installed capacity of 270MW in Turkey. In Northern Cyprus, it owns a fuel oil based PP with an installed capacity of 153MW. In Africa, Uzbekistan, Kazakhstan, and Senegal, Aksa Enerji has 2,585MW installed capacity. The total portfolio is 4,055MW. Together with pre-licensed renewable energy capacity plans, the total installed capacity implies 4,886MW.

We used the Sum of the Parts method for Aksa Enerji and valued Türkiye and international projects separately with the Discounted Cash Flow. We assume 15% NOPAT CAGR for Türkiye between 2024-2033 in TL terms with a FCF yield of 6%, annually on average. For the current international projects, we assume steady state revenues and NOPAT in USD terms with 0% CAGR. Once the ongoing investments become fully operable, our NOPAT CAGR will be revisited. Our USD WACC is 9%.

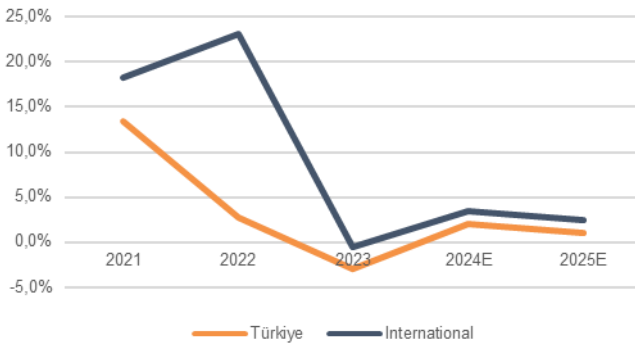
Ownership Structure



Rise in unit prices will continue to set the outlook

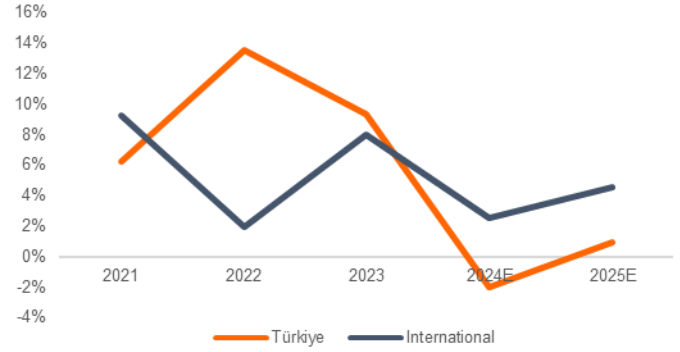
For Coca-Cola İçecek <CCOLA TI> In terms of sales volume, 2023 was a weaker year in the domestic market with a 5% contraction. This performance resulted from multiple factors, such as lower Horeca volumes following the earthquake, the election period of 1H23, and diminishing affordability through the end of the year. For 2024, we foresee a mixed demand outlook as we expect a recovery in the first half amid an improvement in purchasing power with salary hikes, but we are skeptical for the rest of the year. Still, we think 2H23 is setting a low base for volumes, whereby overall change may be surprising. Pricing will be another important issue for sector players as we expect cost inflation of around 60% y/y. However, the company's leadership position in the market may provide a cushion regarding pricing. In the Int'l market, total sales volume was down by c.2% due to the harsh contraction in Pakistan arising from that country's economic/political crisis. Note that the country holds an election on 8th February. Even if we do not expect an instant material recovery in consumer sentiment, the pressured volume of 2023 may set a low base.

Graph 1: CCI sales volume growth



Source: CCI, YKY Research

Graph 2: AEFES sales volume growth



Source: AEFES, YKY Research

The Turkish beer market gave a strong performance through 2023 on the back of a relatively lower price increase than for other items, as well as new offerings and resilient tourism activity. Accordingly, Anadolu Efes' <AEFES TI> domestic beer operations delivered a 9% y/y increase in 2023. For 2024, considering the high base of 2023, we expect a bit contraction in domestic sales volume. On the int'l operations, AEFES managed to increase its sales volume by 4%. Russian operations performed better than initially anticipated, with low single digit growth. We do not expect a bold change in customer sentiment for now. However, we think that the scenario of a further decline in commodity prices and the impact of sanctions may be felt more in the Russian economy in 2024, which poses a risk to customer sentiment. On the pricing side, we expect c.70% increase in unit prices in Türkiye and 7% increase in Ruble terms in Russia. Still, we foresee a c.200bps contraction in EBITDA margin in 2024 primarily due to local difficulties in accessing hedging instruments in Russia.

2023 was also positive for Ülker <ULKER TI>, given solid top-line growth and margin expansion backed by inflationary supports and execution success in int'l operations. More importantly, declining leverage will lead the bottom line to green territory. While we foresee some margin normalization in 2024, inflationary tailwinds are set to support the growth outlook. On the non-operational side, we think that deleveraging may be another value driver, especially in a scenario of a strong TL, as the company still holds a hefty short FX position.

ANADOLU EFES

Stable in dizzy places

We retain our BUY rating for Anadolu Efes while increasing our TP from TL150/shr. to TL190/shr based on our new macro assumptions. The company recently disclosed its sales volume figures which imply a 5% y/y increase (domestic: 9%, int'l: 4%) in 2023. We broadly retain our forecasts for 2023YE of 65% y/y revenue and 81% EBITDA growth. The company implemented a 35% price hike in January, and we estimate the total rise to be at 70% levels for 2024 in the domestic market. We foresee a 7% increase in unit prices in Ruble terms for Russia. Considering mainly the cost pressure in Russia, which largely relates to the difficulty in accessing hedging instruments in the country, we have slightly reduced our EBITDA margin forecast to 18.8%. AEFES shares more than doubled in absolute terms, and we still consider the stock undervalued, considering its hefty FCF generation, declining leverage, and resilient growth prospect while acknowledging the pressure-inducing uncertainty over the EBI deal.

- **Expecting 63% y/y top-line growth in 2024:** We pencil in a tad contraction in domestic sales volume vs. management guidance of flat performance, due to the high base and our concerns over the on-sales channel in 2H24. After a resilient performance in Russia in 2023, we prefer to remain cautious while taking into account competition at this stage. Still, on consolidated basis, we expect a 63% y/y top-line and 54% y/y EBITDA growth in TL terms which we think quite satisfactory.
- **Regarding the EBI deal:** AEFES has been in talks with AB InBev to acquire the non-controlling stake in the Russia and Ukraine operations since April 22. Recently, the parties agreed on a deal that would not result in an immediate cash outflow for AEFES. While we welcome the agreement, we think the biggest bottleneck in the deal is acquiring related approvals from the regulatory bodies.
- **Risks:** i) Regulatory & geopolitical risks ii) Depreciation in operating market currencies iii) Fluctuations in raw material prices.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	90,504	130%	149,357	65%	243,055	63%	322,763	33%
EBITDA	16,411	155%	29,667	81%	45,787	54%	60,533	32%
Net Income	3,429	221%	8,878	159%	12,983	46%	18,033	39%
P/E (x)	6.5		5.6		6.1		4.4	
EV/EBITDA (x)	4.0		3.8		3.3		2.5	
EV/Sales (x)	0.7		0.8		0.6		0.5	
EPS (TL)	5.8		15.0		21.9		30.5	
Div. Yield (*)	6.1%		2.8%		5.1%		7.4%	
FCF Yield	31.8%		17.3%		18.6%		7.0%	

(*) yields are based on payment dates

Rating	BUY
Target Price	TL190.00
Upside (Downside)	43%

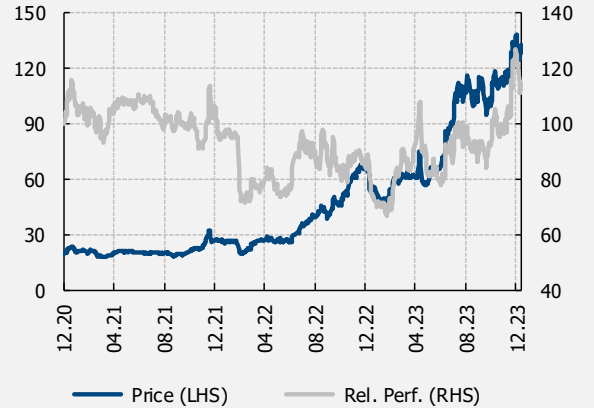
Share Data

Ticker	AEFES.TI / AEFES.IS
Close Price	TL133.10
Current MCap. (TL/US\$ mn)	78,809 / 2,626
Number of Shares (mn)	592.105263
Free Float	32%
3m Avg. Daily Turnover (TL/US\$ mn)	380.11 / 13.19

Trading Range (High / Low) (TL)

1-month	138.00 / 114.70
1-year	138.00 / 45.37
Ytd	138.00 / 124.70

Performance (TL)	Absolute	Relative
1-month	12%	9%
3-month	22%	26%
1-year	141%	46%
Ytd	-3%	-9%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	39,284	90,504	149,357	243,055	322,763
Gross Profit	14,142	32,992	59,476	92,579	122,912
Opex	-10,094	-20,686	-35,412	-55,048	-74,036
EBITDA (*)	6,447	16,411	29,667	45,787	60,533
Depreciation	2,399	4,105	5,603	8,256	11,657
Operating Income	4,048	12,306	24,064	37,531	48,876
Financial Income/Expense	-508	-2,835	-2,428	-5,977	-5,013
Net Other Income/Expense	805	13	627	1021	1356
Profit (Loss) from Subsidiaries	-542	-144	-150	-234	-299
Pre-Tax Income	3,803	9,340	22,114	32,341	44,920
Tax	-1,436	-3,298	-6,634	-9,702	-13,476
Minority Interest/Other	1,299	2,612	6,602	9,655	13,411
Net Income	1,068	3,429	8,878	12,983	18,033
Balance Sheet					
Cash and Liquid Assets	10,334	24,628	40,272	50,206	72,771
Inventories	5,903	14,096	24,378	40,814	54,206
Accounts Receivable	5,117	7,883	22,915	37,291	49,520
Other Current Assets	3,310	4,939	6,661	6,975	7,241
Total Current Assets	24,664	51,546	94,227	135,285	183,738
Fixed Assets (**)	51,459	68,043	99,286	123,811	139,626
Financial and Equity Investments	1	1	1	1	1
Other Non-Current Assets (**)	9,390	13,769	18,490	22,253	26,076
Total Non-Current Assets	60,849	81,812	117,776	146,064	165,702
Total Assets	85,513	133,358	212,003	281,349	349,440
Short-Term Debt	6,475	11,870	21,237	25,913	32,444
Accounts Payable	12,634	20,033	36,937	61,839	82,131
Other Current Liabilities	5,412	10,128	22,215	36,151	48,006
Total Current Liabilities	24,521	42,031	80,388	123,904	162,581
Long-Term Debt	14,772	25,702	36,304	43,033	48,195
Other Non-Current Liabilities	6,887	9,042	11,042	12,111	13,309
Total Non-Current Liabilities	21,659	34,744	47,346	55,144	61,504
Minority Interest	20,617	30,986	45,000	54,045	64,908
Total Shareholders' Equity	39,332	56,582	84,268	102,301	125,355
Total Liabilities and Equity	85,513	133,358	212,003	281,349	349,440
Cash Flow Statement					
Operating Cash Flow	-2,007	-9,834	-8,179	3,209	35,948
Investing Cash Flow	-2,725	-4,931	-11,411	-18,428	-24,530
Financing Cash Flow	12,145	18,481	21,969	12,474	12,890
Dividends Paid	-1,146	-1,098	-1,262	-3,995	-5,843
Free Cash Flow	2,283	7,101	8,646	14,630	5,480
Net Debt	10,912	12,945	17,268	18,740	7,869
Key Ratios					
Gross Margin	36.0%	36.5%	39.8%	38.1%	38.1%
EBITDA Margin	16.4%	18.1%	19.9%	18.8%	18.8%
Net Income Margin	2.7%	3.8%	5.9%	5.3%	5.6%
ROE	3.3%	7.2%	12.6%	13.9%	15.8%
Sales Growth	47%	130%	65%	63%	33%
EBITDA Growth	36%	155%	81%	54%	32%
Earnings Growth	31%	221%	159%	46%	39%
Net Debt-to-Equity (x)	0.3	0.2	0.2	0.2	0.1
Net Debt-to-EBITDA (x)	1.7	0.8	0.6	0.4	0.1

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Anadolu Efes, founded in 1969, is Europe's 5th and the world's 9th largest brewer. Its beer business operates in 6 countries (Türkiye, Russia, Ukraine, Kazakhstan, Moldova and Georgia) with 21 breweries. Total brewing capacity is 52.2 mhl and it serves more than a hundred brands.

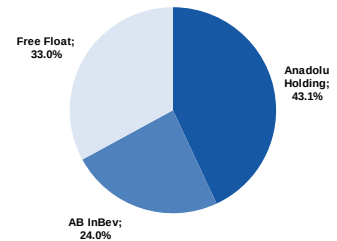
The company holds 50.3% of Coca-Cola İçecek, which is among the top-ten largest Coca-Cola bottlers, serving 11 countries. Soft drink operations corresponds to c.63% of consolidated net sales and beer operations 37%.

Potential catalysts and risks

Potential catalysts include; i) stronger than expected demand; ii) better operating margins; iii) completion of AB InBev EBI deal in favorable terms.

Potential risks include; i) competition, ii) Regulatory changes/increase in taxation; iii) Fluctuation in raw material prices.

Ownership Structure



COCA-COLA ICECEK

FCF to remain intact despite headwinds

We maintain our BUY recommendation for CCOLA with a new 12M target price of TL690/shr (up from TL485.0/shr). We continue to like the company's EBITDA growth outlook in an inflationary climate, despite volume contraction of 2.6% y/y in 2023, which we ascribed to macroeconomic pressures, declining affordability in the domestic side, and partial consumer boycotts in Türkiye, Jordan, and Pakistan over Gaza conflict. Still, due to rising unit prices in the domestic and int'l markets, we maintain our net sales growth forecast of 72% y/y for 2023YE. In the domestic market, the improvement in household purchasing power owing to salary hikes leads us to expect demand improvement. We update our forecasts and currently estimate 63% EBITDA and 64% net earnings growth for 2024YE. Yet, considering the price-setter position in the market in the sparkling category, which allows superior pricing power, solid operational profitability with a 7% FCF margin, and attractive multiples of 4.7x EV/EBITDA 9.1x P/E, we still favor the stock.

- **Volume contraction overshadowed the outlook** CCI has shared its guidance for 2024YE as mid-single-digit volume growth both in Türkiye and int'l operations, low-40% level FX neutral top-line growth, and a y/y flat EBIT margin. Even though the volume guidance is similar to our initial forecasts, we prefer to remain cautious considering a potential scenario where pressure in demand persists for longer and lowered our figure to 1.5% growth.
- **We do not expect strong margin pressure** By our estimates, unit price have risen 95% in the domestic market and 60% in Int'l operations for 2023 and we expect on avg. 60% increase in 2024. Also, c.60% of resin and aluminum are already hedged. Thus, we remain positive regarding the EBITDA performance, expecting growth of 63% y/y.
- **Long-term value drivers are on track** We admit that recent developments in customer sentiment may spell some pressure. Still, we see no risk regarding the long-term value drivers given its strong penetration, low per capita operating regions, and integral pricing power.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	53,530	144%	92,192	72%	151,567	64%	201,362	33%
EBITDA	10,149	121%	19,218	89%	31,334	63%	41,577	33%
Net Income	4,331	91%	8,493	96%	13,941	64%	19,685	41%
P/E (x)	8.3		9.0		9.1		6.5	
EV/EBITDA (x)	4.4		4.9		4.7		3.4	
EV/Sales (x)	0.8		1.0		1.0		0.7	
EPS (TL)	17.0		33.4		54.8		77.4	
Div. Yield (*)	1.9%		1.2%		1.4%		2.5%	
FCF Yield	7.1%		0.1%		7.5%		9.7%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL690.00
Upside (Downside)	38%

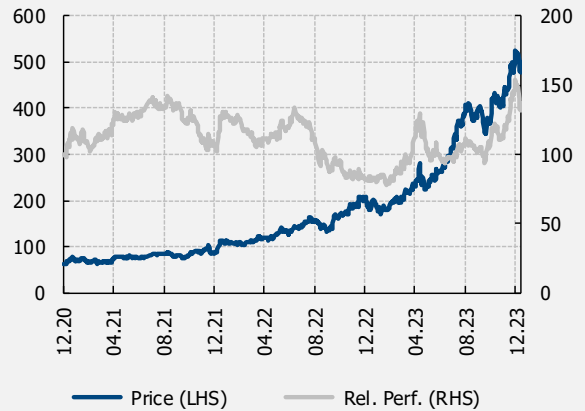
Share Data

Ticker	CCOLA.TI / CCOLA.IS
Close Price	TL500.00
Current MCap. (TL/US\$ mn)	127,185 / 4,237
Number of Shares (mn)	254.370782
Free Float	25%
3m Avg. Daily Turnover (TL/US\$ mn)	221.49 / 7.67

Trading Range (High / Low) (TL)

1-month	525.50 / 438.00
1-year	525.50 / 171.49
Ytd	525.50 / 476.25

Performance (TL)	Absolute	Relative
1-month	14%	10%
3-month	34%	38%
1-year	168%	62%
Ytd	-5%	-11%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	21,930	53,530	92,192	151,567	201,362
Gross Profit	7,717	17,374	33,471	53,981	69,182
Opex	-4,225	-9,046	-17,203	-27,524	-34,918
EBITDA (*)	4,593	10,149	19,218	31,334	41,577
Depreciation	1,100	1,822	2,950	4,877	7,314
Operating Income	3,492	8,328	16,268	26,457	34,264
Financial Income/Expense	225	-1,319	-3,076	-5,599	-4,690
Net Other Income/Expense	-145	-105	903	1485	1973
Profit (Loss) from Subsidiaries	0	0	-5	-7	-9
Pre-Tax Income	3,572	6,903	14,090	22,337	31,538
Tax	-1,151	-2,262	-5,213	-8,265	-11,669
Minority Interest/Other	149	310	384	131	184
Net Income	2,271	4,331	8,493	13,941	19,685
Balance Sheet					
Cash and Liquid Assets	4,215	14,769	16,116	20,441	34,620
Inventories	2,501	6,677	12,066	18,715	24,625
Accounts Receivable	1,639	3,716	12,629	16,610	21,515
Other Current Assets	2,359	2,928	3,587	3,677	3,752
Total Current Assets	10,713	28,090	44,398	59,442	84,513
Fixed Assets (**)	21,807	29,269	46,848	65,587	78,704
Financial and Equity Investments	0	0	0	0	0
Other Non-Current Assets (**)	741	1,358	5,523	6,183	6,687
Total Non-Current Assets	22,548	30,627	52,371	71,770	85,391
Total Assets	33,262	58,717	96,769	131,212	169,904
Short-Term Debt	1,368	5,788	11,186	14,383	16,644
Accounts Payable	3,957	8,284	16,571	27,538	37,300
Other Current Liabilities	2,158	3,152	6,429	10,570	14,042
Total Current Liabilities	7,483	17,225	34,186	52,490	67,986
Long-Term Debt	8,023	15,056	21,678	25,045	31,019
Other Non-Current Liabilities	2,786	3,640	5,641	6,028	6,353
Total Non-Current Liabilities	10,810	18,696	27,319	31,073	37,372
Minority Interest	1,915	2,625	222	364	364
Total Shareholders' Equity	14,970	22,796	35,263	47,649	64,545
Total Liabilities and Equity	33,262	58,717	96,769	131,212	169,904
Cash Flow Statement					
Operating Cash Flow	2,962	4,266	4,085	18,858	25,696
Investing Cash Flow	-5,082	-4,239	-9,858	-16,824	-21,283
Financing Cash Flow	4,789	12,307	14,021	6,951	8,560
Dividends Paid	-712	-600	-750	-1,780	-3,134
Free Cash Flow	-1,201	2,554	90	9,555	12,388
Net Debt	5,176	6,075	16,748	18,987	13,043
Key Ratios					
Gross Margin	35.2%	32.5%	36.3%	35.6%	34.4%
EBITDA Margin	20.9%	19.0%	20.8%	20.7%	20.6%
Net Income Margin	10.4%	8.1%	9.2%	9.2%	9.8%
ROE	19.2%	22.9%	29.3%	33.6%	35.1%
Sales Growth	52%	144%	72%	64%	33%
EBITDA Growth	47%	121%	89%	63%	33%
Earnings Growth	84%	91%	96%	64%	41%
Net Debt-to-Equity (x)	0.3	0.3	0.5	0.4	0.2
Net Debt-to-EBITDA (x)	1.1	0.6	0.9	0.6	0.3

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

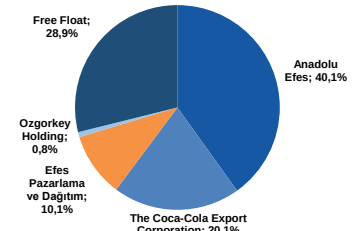
Coca-Cola Icecek operates with 30 facilities with its 146 production lines. Total production capacity is 1.9bn UC per year. It carries out the distribution of over 20 brands and has 896k sales points in total.

The company operates in Türkiye and ten other countries (Pakistan, Kazakhstan, Uzbekistan, Azerbaijan, Kyrgyzstan, Turkmenistan, Jordan, Iraq, Tajikistan, and Syria) and serves c.430mn people.

At the end of 3Q23, the shares of domestic and international operations in total sales volume account for 36% and 64%, respectively.

The share of sparkling category in total sales volume is 82% and still category is 8% and water category has a share of 10%.

Ownership Structure



ULKER

Notable earnings growth outlook

We transfer our coverage for Ulker while commencing a **HOLD** recommendation and updating our TP to TL110/shr (previously: UR) mainly on new macro and operational estimates. Ulker stands out with its defensive operational structure and wide range of product portfolio. After a strong 9M23 with robust volume performance, we note the rise in unit prices, and especially its deleveraging story. The stock also outperformed the BIST100 Index by a hefty 38% in 2023. For 2024, we expect some degree of normalization in gross margin performance due to a relatively lower inflationary/inventory gain impact and higher cost inflation. Still, along with our lower FX loss forecast, we expect net income to grow by 76% y/y. Based on our estimates, the stock trades at a 6.6x P/E and 4.1x EV/EBITDA, which may sustain investor interest throughout 2024. Also, given its short FX position of USD255mn and EUR248mn (c.TL16bn in total), any strengthening of the TL in 2024 may be a value driver for the company.

Defensive operations safeguard against macro conditions.

Historically, demand for the company's confectionary product portfolio consumed primarily through the off-trade channel has been less affected by macro challenges. Even though we foresee a normalization in EBITDA margin in 2024, we still calculate a satisfactory 43% y/y EBITDA growth in 2024, considering last year's high base.

Strong bottom line growth likely.

Ulker has long suffered FX losses due to its leveraged balance sheet with a short FX position. Backed by improving operational performance, its net debt/EBITDA (company defined) had declined from c.2.3x levels in 2022YE to c.1.9x by the end of 9M23. The company had hedged c.70% of its still high FX position, providing a cushion against TL depreciation.

Risks:

i) Lower volumes and margins, ii) Geopolitical risk, iii) Devaluation of the TL, iv) any non-transparent acquisitions.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	28,197	125%	45,923	63%	70,451	53%	90,105	28%
EBITDA	5,467	135%	9,733	78%	13,950	43%	17,223	23%
Net Income	-353	n.m.	2,544	n.m.	4,477	76%	5,779	29%
P/E (x)	-		7.4		6.6		5.1	
EV/EBITDA (x)	4.2		4.1		4.1		3.5	
EV/Sales (x)	0.8		0.9		0.8		0.7	
EPS (TL)	-1.0		7.4		13.1		16.9	
Div. Yield (*)	0.0%		0.0%		0.0%		0.0%	
FCF Yield	-2.0%		-63.0%		-49.2%		-54.4%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL110.00
Upside (Downside)	38%

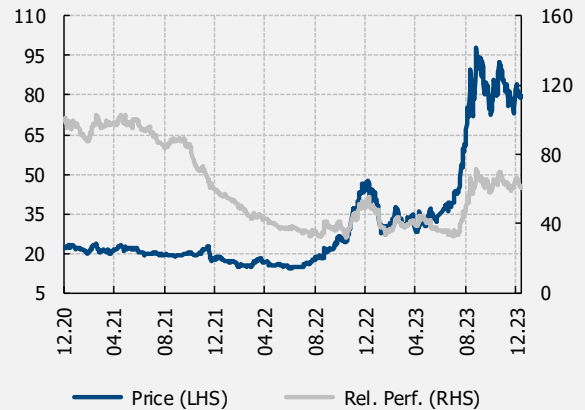
Share Data

Ticker	ULKER.TI / ULKER.IS
Close Price	TL79.90
Current MCap. (TL/US\$ mn)	29,505 / 983
Number of Shares (mn)	369.275855
Free Float	39%
3m Avg. Daily Turnover (TL/US\$ mn)	657.81 / 23.04

Trading Range (High / Low) (TL)

1-month	83.90 / 72.80
1-year	97.75 / 27.18
Ytd	83.90 / 79.00

Performance (TL)	Absolute	Relative
1-month	-2%	-5%
3-month	-9%	-6%
1-year	102%	23%
Ytd	-2%	-9%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	12,537	28,197	45,923	70,451	90,105
Gross Profit	3,612	8,409	14,487	21,213	26,192
Opex	-1,514	-3,290	-5,255	-8,000	-10,007
EBITDA (*)	2,328	5,467	9,733	13,950	17,223
Depreciation	230	349	502	737	1,038
Operating Income	2,098	5,118	9,231	13,212	16,185
Financial Income/Expense	-8,466	-8,051	-11,949	-10,478	-12,050
Net Other Income/Expense	6297	3014	6062	4157	5316
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	-71	82	3,344	6,891	9,452
Tax	-92	118	100	-1,034	-1,890
Minority Interest/Other	302	553	900	1,381	1,782
Net Income	-464	-353	2,544	4,477	5,779
Balance Sheet					
Cash and Liquid Assets	9,420	9,465	9,887	14,612	22,012
Inventories	3,218	4,996	7,579	11,871	15,409
Accounts Receivable	1,035	7,388	12,204	18,723	23,946
Other Current Assets	5,092	3,324	4,413	5,737	6,732
Total Current Assets	18,765	25,174	34,083	50,943	68,099
Fixed Assets (**)	4,292	7,712	9,675	11,240	11,259
Financial and Equity Investments	1,878	2,687	4,268	5,789	7,057
Other Non-Current Assets (**)	1,959	2,285	4,101	5,128	5,854
Total Non-Current Assets	7,479	12,685	18,044	22,157	24,170
Total Assets	26,244	37,859	52,127	73,100	92,269
Short-Term Debt	2,863	11,401	5,500	8,438	10,792
Accounts Payable	2,270	4,161	6,459	10,117	13,133
Other Current Liabilities	1,001	1,325	2,457	3,770	4,821
Total Current Liabilities	6,134	16,887	14,417	22,325	28,746
Long-Term Debt	15,314	12,349	24,000	31,680	38,650
Other Non-Current Liabilities	482	940	1,244	1,244	1,244
Total Non-Current Liabilities	15,796	13,289	25,244	32,924	39,894
Minority Interest	1,327	1,997	1,700	2,608	2,608
Total Shareholders' Equity	4,314	7,682	12,466	17,851	23,630
Total Liabilities and Equity	26,244	37,859	52,127	73,100	92,269
Cash Flow Statement					
Operating Cash Flow	3,854	-8,471	-1,270	-615	1,128
Investing Cash Flow	-276	-677	-9,919	-12,846	-15,825
Financing Cash Flow	7,791	6,032	6,054	10,618	9,323
Dividends Paid	-277	0	0	0	0
Free Cash Flow	-607	-138	-11,798	-14,504	-16,060
Net Debt	8,757	14,285	19,613	25,506	27,429
Key Ratios					
Gross Margin	28.8%	29.8%	31.5%	30.1%	29.1%
EBITDA Margin	18.6%	19.4%	21.2%	19.8%	19.1%
Net Income Margin	n.m.	n.m.	5.5%	6.4%	6.4%
ROE	-8.3%	-5.9%	25.3%	29.5%	27.9%
Sales Growth	29%	125%	63%	53%	28%
EBITDA Growth	21%	135%	78%	43%	23%
Earnings Growth	n.m.	n.m.	n.m.	76%	29%
Net Debt-to-Equity (x)	2.0	1.9	1.6	1.4	1.2
Net Debt-to-EBITDA (x)	3.8	2.6	2.0	1.8	1.6

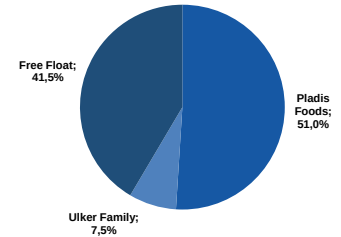
Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**) "Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

The company is a leading confectionary name in Turkey. It also gained sizeable confectionary operations in Saudi Arabia, Egypt, UAE and Kazakhstan after the plant acquisitions from the parent Yildiz Holding throughout 2015-17. It has 13 production facilities (9 in Turkey, 2 in Saudi Arabia and 1 in Egypt and Kazakhstan) with a total capacity of 1,5mn tons.

Ownership Structure



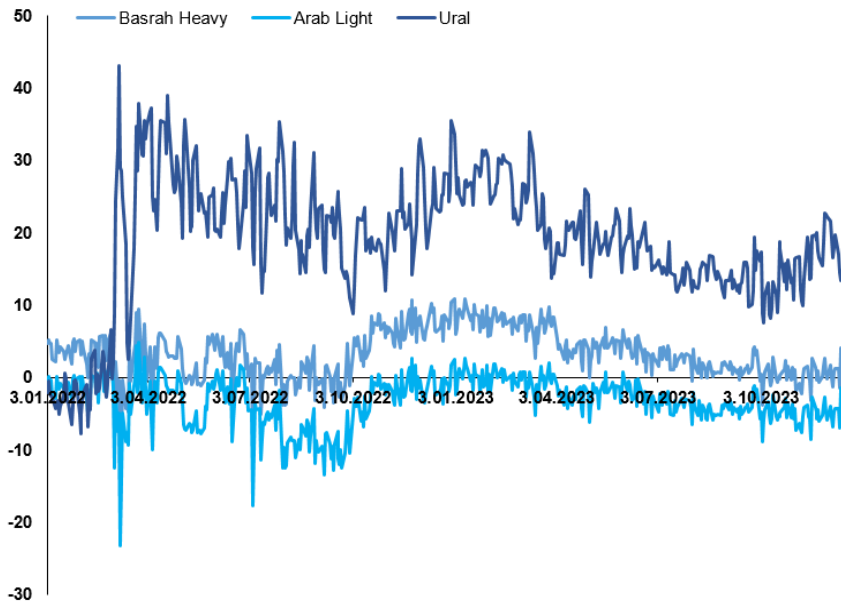
Regression to the mean

Normalizing post-pandemic demand. Post-pandemic oil demand has been recovering from its low base. Global oil demand is on track to reach 101.8mb/d in 2023 from the pandemic-led 91.2 mb/d in 2020. Accommodative monetary policies, a recovering supply chain environment, revenge spending, China's re-opening, and lower inventories supported the c.10mb/d demand recovery in 2021-23. However, renewable energy investments are about to curb fossil fuel use for good. Demand appreciation is set to continue at a slower pace in 2024, at approximately 1.1mb/d, according to the IEA.

Economic slowdown concerns prompt OPEC+ to cut production. The Saudi Arabia and Russia-led OPEC+ production cut of 2.2mb/d has yet to support the fragile demand outlook due to ongoing macroeconomic headwinds. However, non-OPEC+ countries, especially the United States, Brazil, and Iran continue to deliver record-breaking flow into the oil market. Sanctions-free Venezuelan supply is not expected to register an immediate impact on the global oil market due to years of underinvestment. According to the IEA, supply growth in 2024 will be at around 1.2mb/d. As a result, in 2024, the global oil market is expected to be slightly oversupplied.

Price breakeven matters more than ever for Russia. The fiscal breakeven where the sovereign budget balance of a country at par for Russia was USD40/bbl for the last two decades before the invasion. Due to the recent sanctions against the Russian oil and gas market, the respective breakeven point is now north of USD100/bbl. Considering the breakeven of USD80/bbl for Saudi Arabia, crude oil prices should be supported via production cuts by Saudi Arabia and Russia, de-facto leaders of the OPEC+. We believe this fact is largely overlooked by the market.

Exhibit 1: Brent Differentials (USD/bbl)



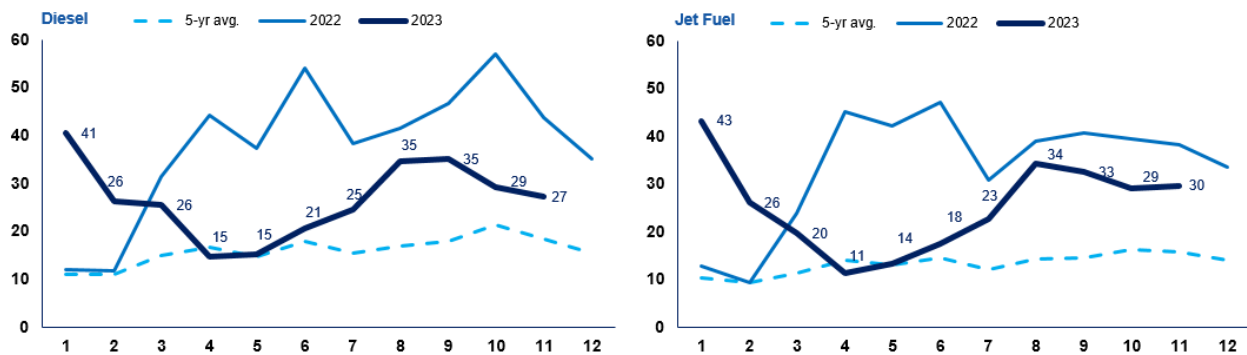
Source: Bloomberg, YKY Research

Türkiye still procures Ural crude oil. Since Türkiye is not a member of G7, Russian crude oil Ural procurement is still available without the obstacle of sanctions. In 9M23, Turkish refineries imported 22.9mn tons of crude oil, with c.27% being Ural crude from Russia. In terms of price and logistics, Ural crude oil availability gives a competitive advantage to Turkish refineries.

Differentials will be the X factor. Since crack demand is weakening for all distillates, the main variable for maintaining and/or expanding the refining margin will be light-heavy differentials. Türkiye should register the benefit of Ural and Basrah supply in gross refining margins compared to Med refineries.

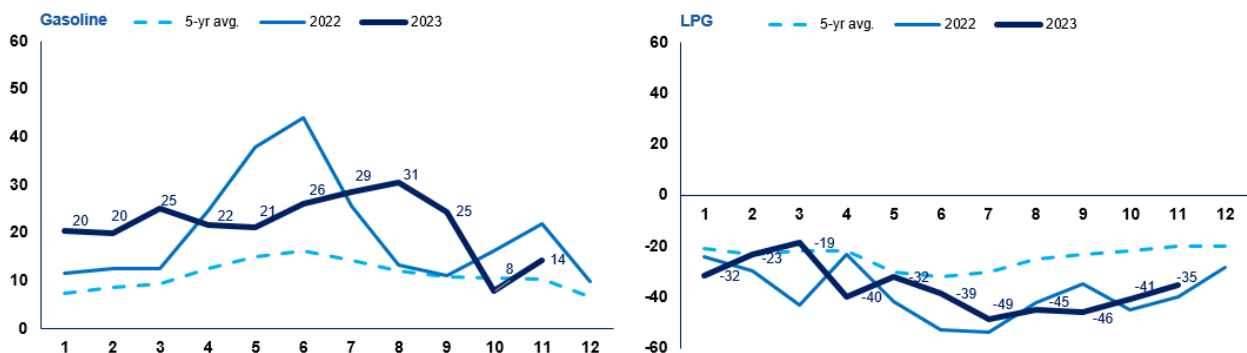
Crack margins reveal imminent regression to the mean. Mid distillate cracks have started to reflect post-pandemic and Russia-Ukraine normalization. Due to recession-led declining economic activity, diesel crack margins have been tilting towards the five-year average of USD15-20/bbl from the all-time-high USD57/bbl in 2022. Thanks to solid tourism and domestic consumption, jet fuel crack margin has been gradually reverting to the mean from the all-time-high USD47/bbl to the five-year average of USD10-15/bbl. Delayed refinery investments in mid distillate crack during the pandemic and the diesel production shift from Russia led Med region mid distillate crack margins to skyrocket in 2022. Since Russia's impact on gasoline crack is relatively limited, its margin normalization trend started prior to that of mid distillates.

Exhibit 2: Mid Distillate Crack Margins (USD/bbl)



Source: Tupras, YKY Research

Exhibit 3: Light Distillate Crack Margins (USD/bbl)

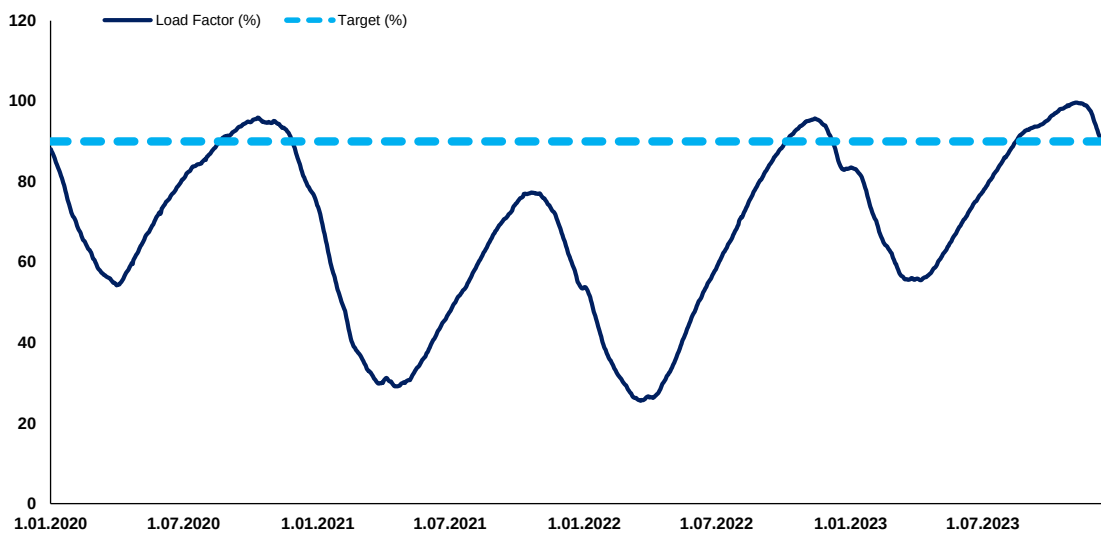


Source: Tupras, YKY Research

Terrorist attacks on the Red Sea. Around 8.2mb/d of liquid oil derivative products (crude and cracks) were transported via the Red Sea, according to Vortexa. Oil shipments via southbound (the Bab el-Mandeb) and northbound (the Suez Canal) account for around 12% of total seaborne-traded oil. Rerouting to the Cape of Good Hope should add 15-20 days to voyage duration from the Middle East Gulf to Mediterranean and Northern Europe from the regular 17-23 days. For the gas market, LNG and LPG trade through the Red Sea is relatively limited.

European gas storage almost at capacity. The natural gas inventories of the EU and UK amount to around 90bcm as of December 2023, which indicates c.87% use of European underground storage capacity. Prior to the war, EU demand was around 400bcm annually. Together with the voluntary demand cut, alternative LNG and fuel supply and rapid renewables investments, absent Russian gas of 160bcm p.a. has been partially covered. In 2024, we assume high storage, operational renewable energy stations, and most importantly, mild weather keeping natural gas prices steady in Europe.

Exhibit 4: European Gas Storage, %



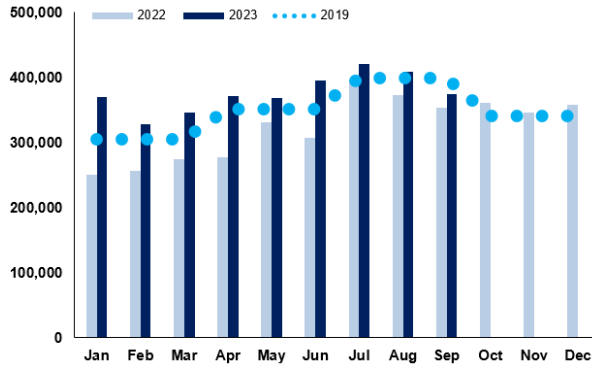
Source: GIE, YKY Research

Natural gas prices see flattish fluctuation. Skyrocketing European benchmark Dutch TTF prices have been easing from the peak of EUR320/MWh to current EUR35/MWh levels. Thanks to high storage, LNG procurement, and renewable energy generation (incl. nuclear), natural gas prices have rebalanced above the pre-war 5-yr average of EUR20/MWh. Elevated tension on the Red Sea has led to no immediate natural gas price hike since the region's share of seaborne gas trade is relatively limited.

Global LPG market likely to be in balance. Mild weather-led subdued heating demand and economic recession fears should pressure the recent short-lived price stimulation. The European LPG balance appears stable thanks to the availability of relief supply on the continent. All things being equal, supply could outpace demand in general due to steady European demand through local supply and US imports. China's latest petrochemical industry resurrection via capacity increase may be supportive of prices, albeit to a limited extent. Since hiked Chinese LPG demand is covered by Russia, European benchmark prices are expected to be muted.

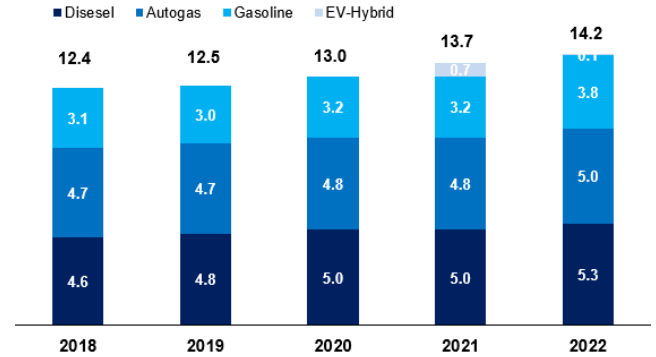
Türkiye's LPG market remains unchanged. The Turkish LPG market maintains its 4.0mn ton annual demand level. The lion's share of the market goes to autogas at 3.1mn tons. This is due to consistently shrinking household cylinder gas demand arising from rising pipeline natural gas penetration. The LPG market is cyclical since mobility-led autogas demand tends to rise during the summer.

Exhibit 5: Turkish LPG Market (mn tons)



Source: EMRA, YKY Research

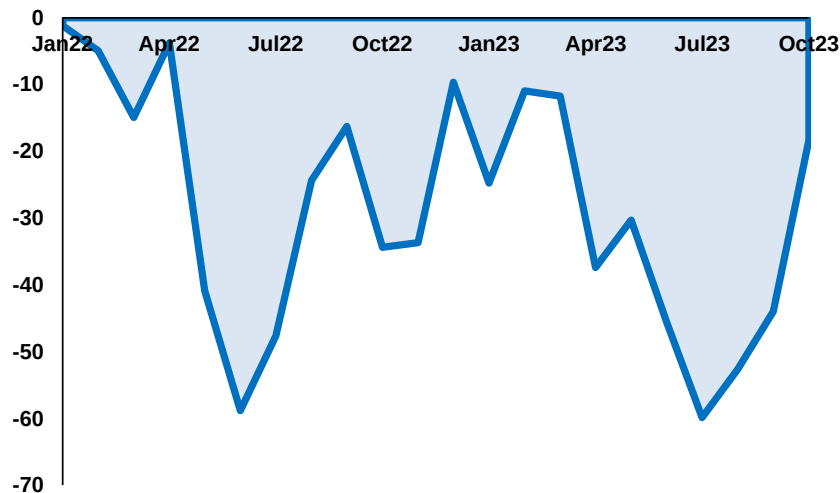
Exhibit 6: Turkish Car Park (mn cars)



Source: Aygaz, YKY Research

LPG-Gasoline differential matters. The LPG price advantage over gasoline attracts the demand for autogas during deepened differential periods. On average, LPG is priced c.30-40% cheaper than gasoline. Consequently, the cheaper the LPG price relative to gasoline, the higher the autogas demand. In Türkiye, there are around 5.0mn LPG-run vehicles making for an approximately 35% share of the total car park. However, the increased EV and hybrid vehicle manufacturing trend is about to curb fuel oil demand, including LPG.

Exhibit 7: Gasoline – LPG Spread (USD/bbl)



Source: Aygaz, Bloomberg, YKY Research

AYGAZ

Diversified portfolio

We resume our coverage for Aygaz due to the change in analyst. Our recommendation is 'HOLD' and we set a 12M target share price of TL170/shr. As a result of solid JV contribution (87% PBT as of 9M23 vs 60% of 10-yr historical average), Aygaz benefits from attractive investment portfolio under equity pickup. We appreciate such a contribution (incl. ~8% dividend yield, on 10-yr avg. from Tupras) during muted LPG demand environment in Türkiye. Thanks to operational diversification efforts from the management due to saturated Turkish LPG market (-2% cylinder and autogas sales volume CAGR in 2018-22), we believe Aygaz will lessen its dependence on Turkish LPG sales (c.25% market share).

We welcome the United Aygaz (the subsidiary in Bangladesh) and Sendeo prospects in following years, even though we do not incorporate into our estimates. In couple of years, Aygaz expects c.250k tons of cylinder sales volume in Bangladesh (vs 55-60k tons expectation for 2023) which implies robust c.75% CAGR between. The stock is trading at 16.5x EV/EBITDA based on our 2024 estimates and implies 13% discount to its 5-yr historical average.

- **Tupras' contribution.** Aygaz benefits from a juicy c.8% dividend yield from Tupras via EYAS. We foresee a 65% dividend payout ratio for Tupras in 2024 with our 2023 net income estimate of TL46bn. Thus, we expect c. TL3bn dividend contribution from EYAS in 2024.
- **Bangladesh prospect.** United Aygaz sales volume is expected to reach Aygaz Türkiye cylinder sales of 250-300k ton/year within a few years as the management expects. Considering 2023 sales volume expectations of 55-60k tons from United Aygaz, the aforementioned volume confirms robust growth potential in Bangladesh. To remain on the conservative side we do not incorporate the respective growth for now into our estimates.
- **Risks.** i) weak EYAS contribution, ii) contacted LPG-gasoline spread, iii) further capital injection for Bangladesh and Sendeo.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	37,507	136%	50,741	35%	71,129	40%	89,454	26%
EBITDA	537	-24%	1,506	180%	1,739	15%	2,203	27%
Net Income	4,733	n.m.	5,320	12%	5,734	8%	7,159	25%
P/E (x)	2.4		4.2		5.2		4.1	
EV/EBITDA (x)	24.3		13.6		16.5		13.3	
EV/Sales (x)	0.3		0.4		0.4		0.3	
EPS (TL)	21.5		24.2		26.1		32.6	
Div. Yield (*)	1.3%		1.0%		4.3%		4.7%	
FCF Yield	-2.9%		34.1%		24.5%		28.2%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL170.00
Upside (Downside)	26%

Share Data

Ticker	AYGAZ.TI / AYGAZ.IS
Close Price	TL135.00
Current MCap. (TL/US\$ mn)	29,673 / 989
Number of Shares (mn)	219.800767
Free Float	24%
3m Avg. Daily Turnover (TL/US\$ mn)	133.38 / 4.66

Trading Range (High / Low) (TL)

1-month	138.70 / 121.00
1-year	163.50 / 58.05
Ytd	138.70 / 127.00

Performance (TL)	Absolute	Relative
1-month	8%	4%
3-month	-14%	-11%
1-year	77%	7%
Ytd	0%	-6%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	15,893	37,507	50,741	71,129	89,454
Gross Profit	1,438	2,223	4,313	5,335	6,262
Opex	916	1,931	3,254	4,253	4,904
EBITDA (*)	705	537	1,506	1,739	2,203
Depreciation	183	245	507	711	895
Operating Income	522	292	999	1,027	1,308
Financial Income/Expense	-163	-384	-761	-1,067	-1,342
Net Other Income/Expense	-66	148	61	55	49
Profit (Loss) from Subsidiaries	423	4491	6377	7371	9207
Pre-Tax Income	697	4,498	6,676	7,386	9,223
Tax	-70	66	-1,535	-1,847	-2,306
Minority Interest/Other	-43	-169	-180	-194	-242
Net Income	670	4,733	5,320	5,734	7,159
Balance Sheet					
Cash and Liquid Assets	1,693	1,827	6,029	7,060	10,766
Inventories	1,433	2,336	2,290	2,704	3,419
Accounts Receivable	1,065	2,459	2,502	3,215	3,676
Other Current Assets	446	827	993	1,191	1,429
Total Current Assets	4,638	7,448	11,814	14,170	19,290
Fixed Assets (**)	804	1,061	1,076	1,095	1,117
Financial and Equity Investments	2,623	7,873	11,964	18,945	26,561
Other Non-Current Assets (**)	268	266	233	244	264
Total Non-Current Assets	3,696	9,200	13,274	20,284	27,942
Total Assets	8,333	16,648	25,088	34,454	47,232
Short-Term Debt	1,067	2,789	3,043	4,110	6,346
Accounts Payable	2,122	4,010	6,360	9,013	11,396
Other Current Liabilities	680	767	1,122	1,347	1,616
Total Current Liabilities	3,869	7,566	10,525	14,469	19,358
Long-Term Debt	1,486	810	1,064	2,131	4,367
Other Non-Current Liabilities	259	418	501	601	721
Total Non-Current Liabilities	1,745	1,227	1,565	2,732	5,088
Minority Interest	21	127	-53	-247	-489
Total Shareholders' Equity	2,719	7,855	12,998	17,253	22,786
Total Liabilities and Equity	8,333	16,648	25,088	34,454	47,232
Cash Flow Statement					
Operating Cash Flow	379	-58	8,180	7,971	9,261
Investing Cash Flow	-158	-262	-507	-711	-895
Financing Cash Flow	652	247	291	849	3,088
Dividends Paid	-150	-150	-220	-1,285	-1,385
Free Cash Flow	221	-320	7,673	7,259	8,367
Net Debt	859	1,736	-1,880	-768	9
Key Ratios					
Gross Margin	9.0%	5.9%	8.5%	7.5%	7.0%
EBITDA Margin	4.4%	1.4%	3.0%	2.4%	2.5%
Net Income Margin	4.2%	12.6%	10.5%	8.1%	8.0%
ROE	26.6%	89.5%	51.0%	37.9%	35.8%
Sales Growth	57%	136%	35%	40%	26%
EBITDA Growth	69%	-24%	180%	15%	27%
Earnings Growth	n.m.	n.m.	12%	8%	25%
Net Debt-to-Equity (x)	0.3	0.2	n.m.	n.m.	0.0
Net Debt-to-EBITDA (x)	1.2	3.2	n.m.	n.m.	0.0

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

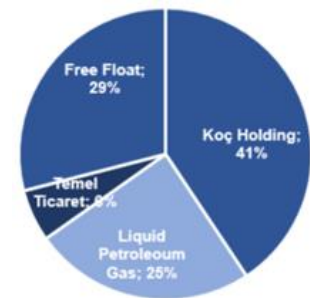
"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Founded in 1961, Aygaz is an integrated LPG company that carries out processes involving the supply, storage, filling, production and sale of LPG devices. Aygaz currently holds c.25% market share in Turkish cylinder and autogas LPG market. Considering contracting cylinder sales volume due to increasing natural gas pipeline penetration, the demand has been shifting towards autogas. However, overall market annual sales volume of c.4mn tons remains unchanged. We foresee c.2.3-2.5mn tons of sales from Aygaz in Türkiye, annually.

We used the Discounted Cash Flow method for Aygaz. We assume XX% NOPAT CAGR between 2024-2033 in TL terms with a FCF yield of 4%, annually on average. Our TL WACC is 21%.

Ownership Structure



TUPRAS

Fueled by cash

We resume our coverage for Tüpraş due to change in responsible analyst. Our recommendation 'HOLD' and we set a 12M target share price of TL195/shr. Thanks to all-time high net income in 2022 with c.USD3bn (vs pre-pandemic average of c.USD700mn) and continued strength in 2023 (c.USD2n in 9M23), Tüpraş now sits on a TL83bn cash position. Considering TL36bn in TL and TL34bn in USD time deposits, we welcome the resilience stance of Tüpraş. As of 3Q23, Net Debt/EBITDA is at -0.7x and implies solid recovery from 2.1x of pre-pandemic average. Additionally, we appreciate the healthy cash conversion cycle with NWC/Sales of -1%as of 9M23.

In our opinion, the normalization in crack margins is about end (mid distillate crack margins are trading at c.50% below their 2022 all-time highs) and we foresee flattish crack margins in 2024. The stock is trading at 2.8x EV/EBITDA and 4.9x P/E based on our 2024 estimates and implies 50% and 26% discount, respectively to its 5-yr historical averages.

- **Spectacular cash position.** We welcome Tüpraş' strong cash position at current high interest rate environment. We expect net financial income of TL3.9bn in 2024 which would support the bottom line. The estimated financial contribution
- **Normalized crack margins.** Due to recovered post-war supply, crack margins have started to tilt towards 5-yr averages. Together with a narrower light-heavy differential in 2024, we expect net refining margin contraction to the USD10/bbl level vs 9M23's USD13/bbl. Yet, our estimate still implies c.48% premium over pre-pandemic 5-yr averages.
- **Elephant in the room.** We assume downside protected oil prices in 2024 due to fiscal budget breakeven for Saudi Arabia and Russia of c.USD80-100/bbl. We believe, de-facto leaders of the OPEC+ will continue to support oil prices.
- **Risks.** i) lower crack margins, ii) energy costs, iii) TL appreciation.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	481,765	216%	574,239	19%	774,519	35%	958,512	24%
EBITDA	55,477	314%	75,242	36%	84,212	12%	102,767	22%
Net Income	41,045	n.m.	45,460	11%	55,033	21%	69,707	27%
P/E (x)	1.9		4.5		4.9		3.9	
EV/EBITDA (x)	1.1		2.1		2.8		2.2	
EV/Sales (x)	0.1		0.3		0.3		0.2	
EPS (TL)	149.1		165.2		199.9		253.2	
Div. Yield (*)	0.0%		11.7%		11.1%		13.4%	
FCF Yield	57.1%		29.5%		10.8%		18.9%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL195.00
Upside (Downside)	40%

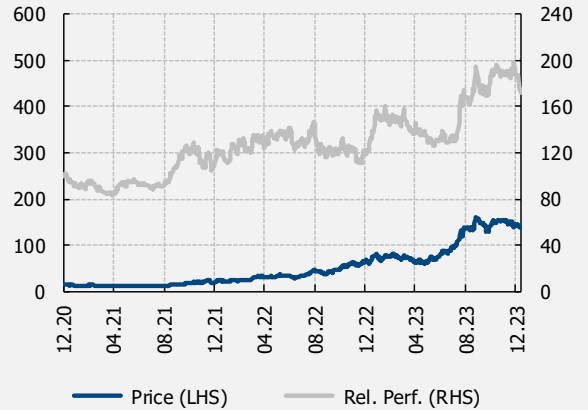
Share Data

Ticker	TUPRS.TI / TUPRS.IS
Close Price	TL139.70
Current MCap. (TL/US\$ mn)	269,173 / 8,968
Number of Shares (mn)	1926.795598
Free Float	49%
3m Avg. Daily Turnover (TL/US\$ mn)	3,996.07 / 139.46

Trading Range (High / Low) (TL)

1-month	152.50 / 138.10
1-year	161.91 / 60.97
Ytd	144.00 / 138.10

Performance (TL)	Absolute	Relative
1-month	-5%	-8%
3-month	-5%	-2%
1-year	115%	30%
Ytd	-2%	-9%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	152,492	481,765	574,239	774,519	958,512
Gross Profit	15,860	62,777	88,177	100,233	120,988
Opex	3,318	8,235	14,084	18,345	21,096
EBITDA (*)	13,396	55,477	75,242	84,212	102,767
Depreciation	854	935	1,148	2,324	2,876
Operating Income	12,542	54,542	74,093	81,888	99,892
Financial Income/Expense	881	-6,096	-5,742	3,873	4,793
Net Other Income/Expense	-11766	-8935	-10276	-13358	-6036
Profit (Loss) from Subsidiaries	593	312	1560	1716	347
Pre-Tax Income	2,358	39,876	59,635	74,119	93,882
Tax	1,255	1,385	-13,716	-18,530	-23,470
Minority Interest/Other	118	216	459	556	704
Net Income	3,495	41,045	45,460	55,033	69,707
Balance Sheet					
Cash and Liquid Assets	21,176	47,635	88,277	86,580	96,653
Inventories	23,758	36,046	53,267	73,894	103,256
Accounts Receivable	13,797	21,418	40,905	53,049	60,399
Other Current Assets	7,785	14,612	17,824	21,389	24,615
Total Current Assets	66,515	119,711	200,273	234,913	284,924
Fixed Assets (**)	28,878	33,460	42,472	63,518	89,558
Financial and Equity Investments	2,156	3,029	3,732	4,292	4,935
Other Non-Current Assets (**)	8,707	12,692	10,041	8,138	7,419
Total Non-Current Assets	39,742	49,182	56,245	75,948	101,912
Total Assets	106,257	168,892	256,519	310,861	386,836
Short-Term Debt	11,628	11,994	13,499	16,323	19,699
Accounts Payable	43,837	52,699	103,871	120,078	149,148
Other Current Liabilities	9,363	14,202	20,515	24,618	28,311
Total Current Liabilities	64,829	78,895	137,885	161,020	197,158
Long-Term Debt	21,565	21,274	26,274	31,274	36,274
Other Non-Current Liabilities	782	1,537	2,331	2,797	3,356
Total Non-Current Liabilities	22,347	22,811	28,605	34,071	39,631
Minority Interest	272	442	902	1,458	2,162
Total Shareholders' Equity	19,081	67,186	90,028	115,770	150,048
Total Liabilities and Equity	106,257	168,892	256,519	310,861	386,836
Cash Flow Statement					
Operating Cash Flow	-1,032	46,260	70,164	51,799	78,882
Investing Cash Flow	-1,123	-2,507	-9,595	-22,685	-28,058
Financing Cash Flow	-11,036	-20,046	-18,499	-22,024	-27,757
Dividends Paid	0	0	-27,000	-29,848	-36,133
Free Cash Flow	-2,155	43,752	60,570	29,114	50,823
Net Debt	12,017	-16,501	-48,213	-38,635	-40,263
Key Ratios					
Gross Margin	10.4%	13.0%	15.4%	12.9%	12.6%
EBITDA Margin	8.8%	11.5%	13.1%	10.9%	10.7%
Net Income Margin	2.3%	8.5%	7.9%	7.1%	7.3%
ROE	21.8%	95.2%	57.8%	53.5%	52.4%
Sales Growth	141%	216%	19%	35%	24%
EBITDA Growth	n.m.	314%	36%	12%	22%
Earnings Growth	n.m.	n.m.	11%	21%	27%
Net Debt-to-Equity (x)	0.6	n.m.	n.m.	n.m.	n.m.
Net Debt-to-EBITDA (x)	0.9	n.m.	n.m.	n.m.	n.m.

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

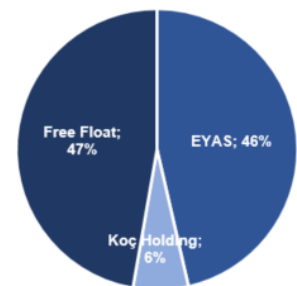
Refining operations of Tupras, which has started back in 1955 by processing domestic crude oil in Batman, has continued with four refineries (İzmir, İzmit, Kırıkkale, Batman) since 1983. It has an annual crude oil processing capacity of 30 million tons.

It is Europe's 7th largest refining company and Türkiye's largest industrial company on the basis of turnover recorded.

Tupras recorded a net refining margin of USD13/bbl in 9M23 compared to USD15/bbl in 9M22. Meanwhile, Med-Complex gross refining margin was USD29/bbl in 9M23 compared to USD28/bbl in 9M22. The management re-iterates the net refining margin guidance of US\$11-12/bbl in 2023.

We used the Discounted Cash Flow for Tupras. We assume 12% NOPAT CAGR in TL terms with a FCF yield of 6%, annually on average. Our TL WACC is 18%.

Ownership Structure



A potential cyclical trend recovery may offset oversupply concerns

Chinese oversupply outweighs. China completed +20 petrochemicals projects in 2023 and increased its global capacity share to 25%. Therefore, the Chinese petrochemicals supply-demand balance matters the most. Since the post-Covid-19 pandemic re-opening policy of November 2022, China has been trying to resurrect demand through financial stimulus and continued supply. Polyester production in the country has scaled historical highs with +70% utilization rates. However, due to headwinds in the domestic real estate industry and weak durable goods dynamics, Chinese demand cannot catch up to supply. India's capacity increase has also pressured global prices due to the supply-demand imbalance. Accordingly, ethylene margins are expected to be muted in 2024 and even in 2025 if the current weak ex-China outlook continues. Moody's Investor Services projects subdued petrochemicals demand in 2024 in light of upcoming Chinese capacity increases.

A cyclical trend recovery is expected. Despite a stabilizing demand outlook, fears of a global recession and an increased cost of financing environment curb the recovery prospects of petrochemicals for 2024. As with industrial commodity products, petrochemicals do tend to follow a cycle. Historically, every trend is followed by a reverse trend for 12-18 months. According to Dow Chemical Company, the ongoing downtrend began in mid-2022. Long-awaited market correction has yet to materialize, but the prices of monoethylene glycol (MEG), the proxy for demand, have started to show signs of life. During 2023, the European MEG spread over naphtha CIF MED has been negative. According to S&P Global Commodity Insights, global polymer demand is forecast to rebound.

Renewable energy theme may help boost demand. Energy diversification policies in the aftermath of the Russia-Ukraine conflict, and global demand for wind and solar energy sources have peaked. Together with rising interest in storage via lithium battery manufacturing and EV adoption, petrochemicals demand may be backed by these energy related sectors other than construction and heavy industry traditionally. As a reminder, the building and construction segment dominates petrochemicals demand with a 32% market share.

Import dependency challenges Türkiye. Approximately 70% of Turkish petrochemicals raw materials are imported and the remaining 30% is supplied by domestic production. Following the imposing of sanctions against Russia, polymer exports to Europe became re-routed to Türkiye. Considering also the oversupply situation in China, Turkish product margins are almost solely dependent on imported global prices, especially from Russia and China. High naphtha costs with discounted imported product prices, domestic producers do bear lower margins.

Construction demand. Since the devastating February 2023 Kahramanmaraş earthquake, renovation and reinforcement demand has peaked. In parallel, construction related petrochemicals demand, especially for ethylene-based products, should be supported by the aforementioned factor. Türkiye's petrochemicals demand was at around +2mn tons per quarter even in the most challenging periods of 2023. We foresee sustained domestic demand in volume terms, but margin pressure seems set to persist for some time.

Still watching the Red Sea. Terrorist attacks on the Red Sea continue to pressure seaborne commodity logistics from Asia and the Gulf destined for Europe. Due to the longer alternate route via the Cape of Good Hope, logistic costs are expected to double. Cost hikes without sufficient demand would result in undemanding product pricing.

PETKIM

Feeling like a STAR

We resume our coverage for Petkim due to change in analyst. Our recommendation is 'HOLD' and we set a 12M target share price of TL25/shr. We welcome the recent developments via STAR Refinery. As of late 2023, Petkim revised the offtake agreement with the STAR with respect to naphtha procurement which constitutes c.50% of COGS. Petkim now free to procure its total naphtha needing whether from the STAR or spot market. Thus, we expect upside potential on gross margin for Petkim starting from 2024. Yet, we still not fully incorporated into our estimates (w/ limited margin expansion of 170bps in 2024 y/y). Additionally, Petkim became indirect shareholder of the STAR with 12% as of 4Q23. Thus, we estimate USD100mn contribution on PBT via equity pickup.

The stock is trading at 11.9x EV/EBITDA and 6.5x P/E based on our 2024 estimates and implies 51% and 30% discount, respectively to its 5-yr historical average. We believe the ongoing weaknesses in petrochemicals sector are already priced in considering the last 1-yr underperformance of 30% relative to the benchmark index.

- Revised offtake agreement.** In October 2023, Petkim and STAR revised the naphtha offtake agreement which obligation on Petkim's procurement from STAR at a certain volume and price. With the revised agreement, Petkim is able to procure naphtha from spot market and/or STAR at the same time. Thus, from now on, Petkim may benefit from advantageous international naphtha prices vs STAR. We foresee a blended USD585/ton naphtha cost for Petkim in 2024, on average (vs USD625/ton MED average in 2023).
- Share purchasing.** Our annual USD100mn contribution from the STAR which corresponds 36% of our 2024 PBT and should support Petkim's bottom-line at an incremental rate going forward.
- Risks.** i) muted petrochemicals outlook, ii) weak STAR contribution, iii) TL appreciation.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	48,898	70%	46,445	-5%	73,444	58%	94,803	29%
EBITDA	3,390	-44%	2,369	-30%	7,205	204%	11,165	55%
Net Income	6,580	21%	3,595	-45%	7,965	122%	11,432	44%
P/E (x)	4.4		12.3		6.5		4.5	
EV/EBITDA (x)	12.7		30.3		11.9		8.0	
EV/Sales (x)	0.9		1.5		1.2		0.9	
EPS (TL)	2.6		1.4		3.1		4.5	
Div. Yield (*)	0.0%		0.0%		0.0%		0.0%	
FCF Yield	0.5%		0.2%		21.2%		35.0%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL25.00
Upside (Downside)	23%

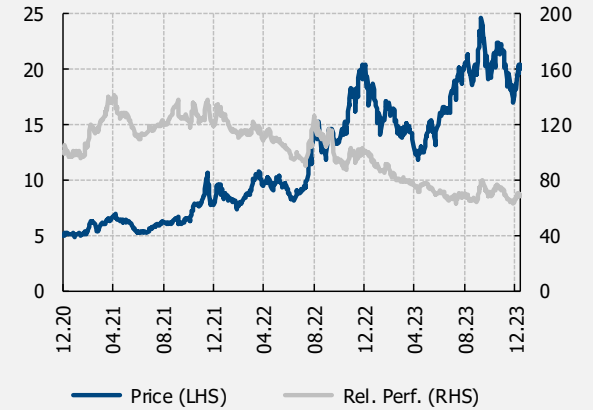
Share Data

Ticker	PETKM.TI / PETKM.IS
Close Price	TL20.40
Current MCap. (TL/US\$ mn)	51,702 / 1,722
Number of Shares (mn)	2534.4
Free Float	47%
3m Avg. Daily Turnover (TL/US\$ mn)	2,072.57 / 72.51

Trading Range (High / Low) (TL)

1-month	20.40 / 17.05
1-year	24.64 / 11.83
Ytd	20.40 / 18.15

Performance (TL)	Absolute	Relative
1-month	8%	5%
3-month	-13%	-10%
1-year	17%	-29%
Ytd	12%	5%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	28,716	48,898	46,445	73,444	94,803
Gross Profit	6,417	4,119	3,748	9,401	13,727
Opex	867	1,635	2,396	3,529	4,283
EBITDA (*)	6,090	3,390	2,369	7,205	11,165
Depreciation	540	906	1,017	1,333	1,720
Operating Income	5,550	2,484	1,352	5,872	9,444
Financial Income/Expense	-658	-2,098	-5,205	-3,583	-4,921
Net Other Income/Expense	1761	4292	7915	5069	6457
Profit (Loss) from Subsidiaries	0	0	481	2771	3550
Pre-Tax Income	6,652	4,678	4,544	10,129	14,530
Tax	-1,136	1,867	-909	-2,026	-2,906
Minority Interest/Other	65	-35	39	139	192
Net Income	5,452	6,580	3,595	7,965	11,432
Balance Sheet					
Cash and Liquid Assets	3,665	13,252	6,177	7,114	9,161
Inventories	3,540	4,383	5,124	5,764	6,486
Accounts Receivable	5,107	4,735	8,128	12,853	15,168
Other Current Assets	7,312	12,035	16,284	18,389	18,989
Total Current Assets	19,623	34,405	35,713	44,120	49,805
Fixed Assets (**)	7,395	12,036	17,067	28,667	43,512
Financial and Equity Investments	9	9	9	9	9
Other Non-Current Assets (**)	3,401	8,213	11,624	14,701	18,973
Total Non-Current Assets	10,805	20,258	28,700	43,377	62,494
Total Assets	30,428	54,663	64,412	87,497	112,298
Short-Term Debt	2,877	25,727	20,264	21,991	21,926
Accounts Payable	3,836	4,407	6,404	9,606	12,161
Other Current Liabilities	943	1,064	781	1,171	1,485
Total Current Liabilities	7,655	31,198	27,449	32,769	35,572
Long-Term Debt	9,224	2,997	13,382	19,487	25,319
Other Non-Current Liabilities	830	1,409	1,167	1,167	1,167
Total Non-Current Liabilities	10,054	4,406	14,550	20,654	26,486
Minority Interest	-3	35	-3	-3	-3
Total Shareholders' Equity	12,719	19,059	22,413	34,074	50,239
Total Liabilities and Equity	30,428	54,663	64,412	87,497	112,298
Cash Flow Statement					
Operating Cash Flow	3,553	5,236	1,946	13,034	20,630
Investing Cash Flow	-1,142	-5,099	-1,867	-2,098	-2,553
Financing Cash Flow	-3,486	10,143	7,715	6,632	4,568
Dividends Paid	0	0	0	0	0
Free Cash Flow	2,411	137	80	10,936	18,077
Net Debt	8,387	14,295	27,469	34,364	38,085
Key Ratios					
Gross Margin	22.3%	8.4%	8.1%	12.8%	14.5%
EBITDA Margin	21.2%	6.9%	5.1%	9.8%	11.8%
Net Income Margin	19.0%	13.5%	7.7%	10.8%	12.1%
ROE	53.8%	41.4%	17.3%	28.2%	27.1%
Sales Growth	137%	70%	-5%	58%	29%
EBITDA Growth	236%	-44%	-30%	204%	55%
Earnings Growth	401%	21%	-45%	122%	44%
Net Debt-to-Equity (x)	0.7	0.8	1.2	1.0	0.8
Net Debt-to-EBITDA (x)	1.4	4.2	11.6	4.8	3.4

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

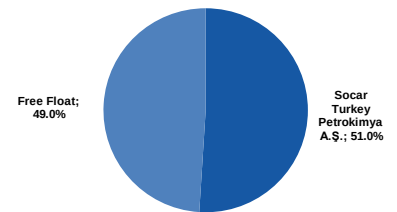
Company Description

Petkim, sole petrochemicals producer in Türkiye, is an indispensable raw material supplies. It has around 16% market share in the domestic market, while the remaining is met through imports. As of 9M23, Petkim's sales breakdown is constituted of 64% domestic and 36% export. European Union holds approx. 80% of share in export portion.

The major risk for Petkim is contracted ethylene-naphtha spread due to subdued global petrochemicals demand. In 2023, the global spread was USD187/ton, on average vs USD497/ton of pre-pandemic average. Thus, according to us, c.63% spread contraction implies protected downside risk and we believe risks are already priced in.

We used the Discounted Cash Flow method for Petkim. We assume 30% NOPAT CAGR between 2024-2033 in TL terms with a FCF yield of 9%, annually on average. Our TL WACC is 19%.

Ownership Structure



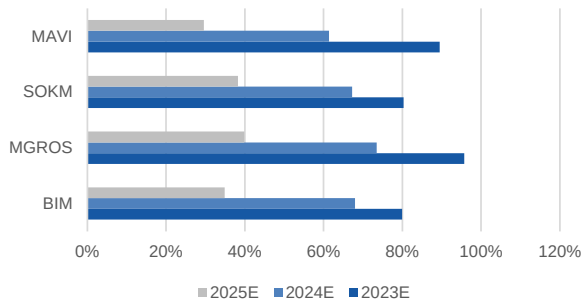
Turkish Retail Sector

Inflationary tailwinds continue to support the outlook

2023 has been a very positive year for listed Turkish food retailers amid inflationary tailwinds, market share gains, and robust store additions despite the earthquake of 1Q23. Although expense pressure has been visible during the year primarily due to the minimum wage hikes of 55% in January and 34% in July, the companies has somewhat largely offset the overruns despite strong price competition. All retailers under our coverage have posted above-inflation top-line and EBITDA growth, and their share prices have widely surpassed the Benchmark Index (on avg. 60% outperformance in 2023).

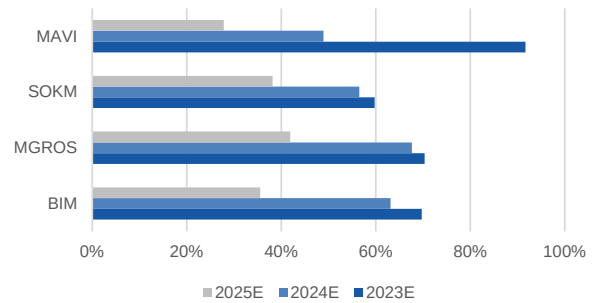
For 2024, we believe that inflation will continue to be the key driver of the growth outlook - it will be hefty for the year's first half. Regarding retail space expansion, the high course of interest rates and the expectation of a decline in inflation may reduce the attractiveness of new store openings to some extent. Still, at the time being, we expect companies to keep store openings at similar levels compared to 2023 in line with their long-term strategies. However, as a result of the rapid pace of penetration by players over the past five years, there is the risk of a decline in the number of stores to be opened beyond next years or else downward pressure on profitability from new store openings as stores have been opened in most regions with the potential to attract higher-than-average traffic. Still, we do not expect this to weigh heavily in 2024.

Graph 1: Net Sales Growth by years



Source: Bloomberg, YKY Research

Graph 2: EBITDA growth by years



Source: Bloomberg, YKY Research

We agree that all national chains will experience difficulties on the cost front in 2024. Heightened input costs, namely, the recent minimum wage hike of 49% and the lagged impact of inflationary adjustments in rental costs, will pressure operating margins in 2024, especially in 1H24. Accordingly, we foresee on avg. c.200bps contraction in EBITDA margins in 1Q24 for now and a gradual margin recovery through the end of the year. Still we believe 2024 will be more challenging in terms of protecting margins, and we calculate a c.30bps decline, implying avg. EBITDA growth of 55%, which we find quite satisfactory. Also, a defensive cash management structure may continue to stand out.

In the apparel segment, we expect the internal inflation of the brands we follow (both listed and non-listed) to be around 50%, which will largely mitigate opex pressure. However, deterioration in customer demand might lead to higher price competition and result in gross margin shrinkage. In recent years, the prices of large items such as houses and cars have increased significantly, reaching levels that the middle-young population, in particular, cannot easily afford. This scenario may enable these consumer groups to spend more comfortably on smaller purchases like apparel. Based on that, we are more positive regarding the domestic retail customer traffic of Mavi <MAVI T> and its e-commerce operations.

BIMAS

On a good track

We transfer our coverage for BIM, retain our BUY recommendation, and update our 12M target share price to TL510/shr. (previously: UR) incorporating our new macro assumptions. Following a strong set of results in 2023 (+66% to BIST100), we expect the stock's outperformance to continue on the back of the inflationary tailwinds for basket size growth, solid floor space growth, and the prospect of a resilient FCF margin in this year. Also, its defensive nature and undemanding 2024e multiples of 6.4x EV/EBITDA and 10.8x P/E may support the outlook during the year. For 2024, we anticipate a somewhat similar performance, marked by above-inflation top-line growth, but with weaker y/y margins due to the hefty minimum wage hike of 49% and a less favorable pricing environment (e.g., higher price discounts and campaigns than usual). We calculate 68% revenue growth with an EBITDA margin of 7.4% in 2024 as the 2H24 financials promise to be stronger than the first half.

- Revenues at high end of guidance** We estimate BIM will be rounding off the year with 80% top-line growth and an EBITDA margin of 7.6% in 2023, in line with the upward-revised guidance. Yet, we calculate a c.200bps contraction in EBITDA margin in 1H24 due to higher personnel expenses after the min. wage hike, combined with lower traffic in January, along with diminishing customer purchasing power. However, we estimate the year-end margin gradually improving with surfacing operational leverage benefits. Additionally, we foresee c.8% y/y retail space growth in 2024.
- Higher visibility** We believe BIM's segmentation in the market, its SKU type composed of c.65% private label products, and successful capital allocation provide a superior market position, especially during gloomy conjunctures. We believe that the stock's defensive nature with its proven financial resilience (i.e., debt-free status and FCF margin of 2%) might continue to keep investor interest alive in the current environment.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	147,716	109%	265,825	80%	446,500	68%	602,143	35%
EBITDA	11,867	80%	20,146	70%	32,865	63%	44,546	36%
Net Income	8,157	178%	11,342	39%	18,771	66%	26,254	40%
P/E (x)	7.4		11.3		10.8		7.7	
EV/EBITDA (x)	5.7		6.7		6.4		4.9	
EV/Sales (x)	0.5		0.5		0.5		0.4	
EPS (TL)	13.4		18.7		30.9		43.2	
Div. Yield (*)	2.9%		2.2%		2.8%		4.6%	
FCF Yield	8.4%		7.2%		7.1%		9.8%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating

BUY

Target Price

TL510.00

Upside (Downside)

52%

Share Data

Ticker	BIMAS.TI / BIMAS.IS
Close Price	TL335.00
Current MCap. (TL/US\$ mn)	203,412 / 6,777
Number of Shares (mn)	607.2
Free Float	60%
3m Avg. Daily Turnover (TL/US\$ mn)	1,302.91 / 45.39

Trading Range (High / Low) (TL)

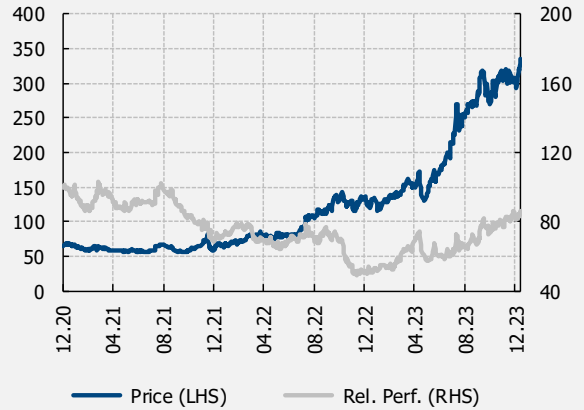
1-month	335.00 / 292.25
1-year	335.00 / 116.50
Ytd	335.00 / 292.25

Performance (TL)

Absolute

Relative

1-month	9%	6%
3-month	6%	9%
1-year	172%	65%
Ytd	11%	4%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	70,699	147,716	265,825	446,500	602,143
Gross Profit	13,460	26,774	50,773	82,156	110,192
Opex	-8,687	-17,499	-35,145	-55,032	-72,891
EBITDA (*)	6,576	11,867	20,146	32,865	44,546
Depreciation	1,803	2,593	4,519	5,741	7,245
Operating Income	4,774	9,274	15,627	27,124	37,301
Financial Income/Expense	-548	-1,115	-2,002	-2,861	-3,499
Net Other Income/Expense	-316	640	1096	755	1194
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	3,910	8,799	14,721	25,018	34,996
Tax	-959	-640	-3,386	-6,255	-8,749
Minority Interest/Other	18	2	-6	-7	-7
Net Income	2,932	8,157	11,342	18,771	26,254
Balance Sheet					
Cash and Liquid Assets	2,989	4,194	9,605	9,914	15,501
Inventories	6,693	14,632	26,018	43,812	59,179
Accounts Receivable	3,775	7,074	15,294	25,533	34,446
Other Current Assets	554	2,195	4,152	7,125	9,435
Total Current Assets	14,011	28,095	55,069	86,384	118,561
Fixed Assets (**)	7,951	22,592	28,879	37,651	48,176
Financial and Equity Investments	978	2,093	3,557	5,593	7,147
Other Non-Current Assets (**)	7,472	11,905	19,858	31,272	39,868
Total Non-Current Assets	16,401	36,589	52,294	74,516	95,191
Total Assets	30,412	64,684	107,363	160,901	213,752
Short-Term Debt	1,793	2,450	3,969	5,666	7,641
Accounts Payable	12,294	24,745	48,902	82,851	111,868
Other Current Liabilities	1,778	1,614	4,187	5,708	7,018
Total Current Liabilities	15,865	28,810	57,058	94,225	126,527
Long-Term Debt	6,349	9,460	15,200	17,538	20,427
Other Non-Current Liabilities	389	1,005	1,309	2,193	2,954
Total Non-Current Liabilities	6,738	10,465	16,509	19,730	23,381
Minority Interest	203	208	250	300	330
Total Shareholders' Equity	7,809	25,409	33,795	46,945	63,844
Total Liabilities and Equity	30,412	64,684	107,363	160,901	213,752
Cash Flow Statement					
Operating Cash Flow	5,830	12,730	21,028	28,974	37,237
Investing Cash Flow	-45	-5,195	-8,646	-9,707	-10,612
Financing Cash Flow	1,920	4,384	7,562	4,919	5,626
Dividends Paid	-3,643	-1,822	-3,036	-5,671	-9,385
Free Cash Flow	5,785	5,024	9,210	14,365	19,924
Net Debt	5,153	9,730	9,564	13,290	12,568
Key Ratios					
Gross Margin	19.0%	18.1%	19.1%	18.4%	18.3%
EBITDA Margin	9.3%	8.0%	7.6%	7.4%	7.4%
Net Income Margin	4.1%	5.5%	4.3%	4.2%	4.4%
ROE	39.1%	49.1%	38.3%	46.5%	47.4%
Sales Growth	27%	109%	80%	68%	35%
EBITDA Growth	30%	80%	70%	63%	36%
Earnings Growth	12%	178%	39%	66%	40%
Net Debt-to-Equity (x)	0.7	0.4	0.3	0.3	0.2
Net Debt-to-EBITDA (x)	0.8	0.8	0.5	0.4	0.3

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

BIM commenced its operations in 1995 as Turkey's first market chain implementing the hard-discount model, which is broadly similar to German Aldi, and currently the largest retailer in Turkey in terms of revenues and owns the second most extensive store network. The company also has presence in Morocco and Egypt. BIM offers high quality food and basic consumer goods at the lowest possible price and limits its assortment to ~900 SKUs. The main strategy is to increase the stake of private labels in total product offering and pass on all possible cost reductions obtained by suppliers to customers to drive traffic. Hence, profitability comes from volume growth, rather than pricing.

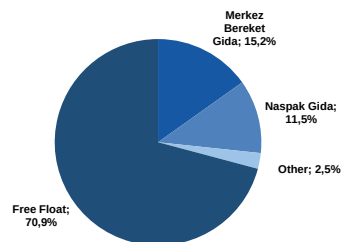
We welcome Bim's resilience in maintaining its margins and top-line momentum, despite various challenges, particularly higher pace of its peers' store expansion in recent times. We expect the company continue to outperform the overall market thanks to its relative strengths, many of which still stems from its first mover advantages.

Potential catalysts and risks

Potential catalysts include; (i) better than expected same store sales, (ii) slower growth of competitors, (iii) enhanced assortment (e.g. frozen and ready-to-cook traditional foods)

Potential risks include; (i) lower like for like sales, particularly lower customer traffic; (ii) adverse macro developments that curbs consumers' shopping appetite and (iii) regulatory changes

Ownership Structure



MAVI

No need to worry

We commence our rating for Mavi to BUY with a 12M target share price of TL190 (previous: U/R) while expecting the current momentum in its operations and financials to be broadly valid in 2024. The top-line growth in 9M23 was quite impressive, particularly on the domestic front. Domestic retail revenues, accounting for c.70% of total sales, doubled y/y. In contrast, Int'l operations, corresponding to 13% of total sales, remained weak with 43% y/y growth due to lower spending activity in the operating regions. On the domestic side, we expect demand to remain robust, along with salary hikes in 1H24. On a company-specific basis, we believe that the pricing advantage and market positioning will continue to give the company an advantage over its competitors. From a macro perspective, while our forecasts point to a contraction in purchasing power beyond 1H24, we think that the difficulty in accessing big-ticket items and, therefore, customer ability to spend on lower-priced products such as clothing may support the sector in terms of demand.

- **Strong cash generation.** Mavi's EBITDA grew by 90% in 9M23, backed by the customer traffic growth of 16%. Although incorporating a decline in the 4Q gross margin due to lagged input costs, we foresee EBITDA growth of 92% in 2023. This may largely support the FCF margin performance, which declined due to rising NWC needs on inflationary headwinds and early payments to suppliers.
- **Continued growth with normalized margins in 2024.** We project a 55% LfL growth for Mavi while expecting 2% traffic growth in 2024. Therefore, this may largely compensate for opex pressure. However, remaining conservative, we forecast a 200bps gross margin contraction considering a weaker demand in 2H24. Also, while keeping the working capital/sales ratio at 7% in 2024, we still forecast a 6% FCF margin. Further, the company's net cash position of TL2.1bn, corresponding to 8% of the latest mcap, gives us further confidence in our bullish stance towards the stock.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	10,592	129%	20,070	89%	32,383	61%	41,958	30%
EBITDA	2,481	144%	4,756	92%	7,084	49%	9,055	28%
Net Income	1,439	259%	2,775	93%	3,790	37%	4,524	19%
P/E (x)	4.2		5.8		6.7		5.6	
EV/EBITDA (x)	2.1		3.0		3.1		2.2	
EV/Sales (x)	0.5		0.7		0.7		0.5	
EPS (TL)	14.5		27.9		38.2		45.5	
Div. Yield (*)	2.0%		2.7%		5.5%		7.5%	
FCF Yield	25.2%		9.1%		16.0%		24.0%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating

BUY

Target Price

TL190.00

Upside (Downside)

49%

Share Data

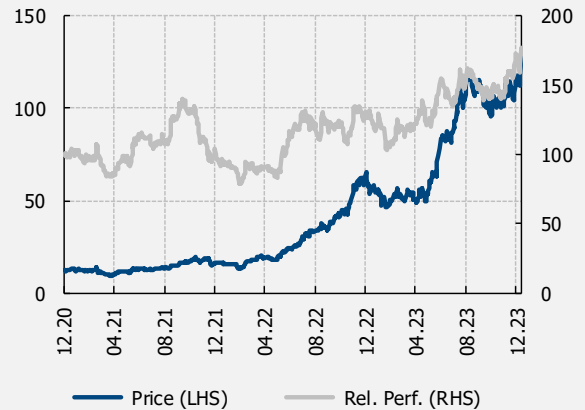
Ticker	MAVI.TI / MAVI.IS
Close Price	TL127.10
Current MCap. (TL/US\$ mn)	25,246 / 841
Number of Shares (mn)	198.628
Free Float	73%
3m Avg. Daily Turnover (TL/US\$ mn)	224.69 / 7.78

Trading Range (High / Low) (TL)

1-month	127.10 / 104.10
1-year	127.10 / 46.23
Ytd	127.10 / 112.10

Performance (TL)

	Absolute	Relative
1-month	13%	10%
3-month	23%	27%
1-year	126%	37%
Ytd	9%	2%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	4,619	10,592	20,070	32,383	41,958
Gross Profit	2,372	5,602	10,667	16,580	21,314
Opex	-1,714	-3,625	-6,691	-10,763	-14,271
EBITDA (*)	1,016	2,481	4,756	7,084	9,055
Depreciation	358	503	781	1,267	2,011
Operating Income	658	1,977	3,976	5,817	7,043
Financial Income/Expense	-160	-333	-592	-1,020	-1,364
Net Other Income/Expense	41	59	172	255	349
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	539	1,703	3,556	5,051	6,029
Tax	-116	-244	-782	-1,263	-1,507
Minority Interest/Other	23	20	-1	-2	-2
Net Income	400	1,439	2,775	3,790	4,524
Balance Sheet					
Cash and Liquid Assets	1,509	3,303	5,476	8,540	12,408
Inventories	751	2,308	5,925	9,525	11,877
Accounts Receivable	394	871	1,760	2,839	3,678
Other Current Assets	202	304	522	783	956
Total Current Assets	2,856	6,785	13,682	21,687	28,920
Fixed Assets (**)	390	581	883	1,306	1,687
Financial and Equity Investments	0	0	0	0	0
Other Non-Current Assets (**)	849	1,277	1,930	2,579	2,874
Total Non-Current Assets	1,239	1,858	2,813	3,885	4,561
Total Assets	4,095	8,643	16,495	25,572	33,480
Short-Term Debt	1,120	1,891	2,674	4,144	5,359
Accounts Payable	1,189	2,961	5,579	9,376	12,248
Other Current Liabilities	262	592	1,622	2,618	3,392
Total Current Liabilities	2,570	5,444	9,876	16,137	20,999
Long-Term Debt	277	290	700	901	1,154
Other Non-Current Liabilities	55	177	232	303	358
Total Non-Current Liabilities	332	467	932	1,204	1,512
Minority Interest	79	140	230	371	481
Total Shareholders' Equity	1,193	2,732	5,687	8,231	10,969
Total Liabilities and Equity	4,095	8,643	16,495	25,572	33,480
Cash Flow Statement					
Operating Cash Flow	1,370	1,001	1,830	4,365	6,334
Investing Cash Flow	-80	-292	-624	-1,003	-1,267
Financing Cash Flow	-675	906	1,249	1,741	1,524
Dividends Paid	-30	-120	-429	-1,387	-1,895
Free Cash Flow	1,290	1,532	1,449	4,035	6,059
Net Debt	-112	-1,122	-2,101	-3,496	-5,895
Key Ratios					
Gross Margin	51.3%	52.9%	53.2%	51.2%	50.8%
EBITDA Margin	22.0%	23.4%	23.7%	21.9%	21.6%
Net Income Margin	8.7%	13.6%	13.8%	11.7%	10.8%
ROE	46.4%	73.3%	65.9%	54.5%	47.1%
Sales Growth	92%	129%	89%	61%	30%
EBITDA Growth	164%	144%	92%	49%	28%
Earnings Growth	n.m.	259%	93%	37%	19%
Net Debt-to-Equity (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Net Debt-to-EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

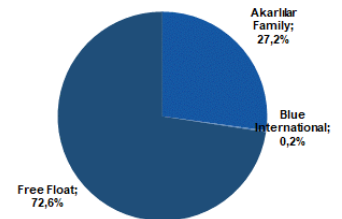
"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Mavi is an international apparel and accessories brand for both women and men. The company sells its products, which are designed in-house with outsourced production, to end-users, mostly through its retail stores, but also via the wholesale and e-commerce channels where c.80-85% of consolidated revenues are generated in Turkey. Meanwhile, c. 80% of domestic retail revenues is attributable to same stores (i.e. like-for-like), a key parameter for profitability.

Our conviction on the company's outlook stems mainly from (i) its well-known brand name in domestic market, particularly at denim segment (i.e. the market leader with a c.25% share in the jeans market) (ii) its firm understanding of local dynamics, consumer preferences and changing trends in terms of the merchandise mix, which is reflected in its financials, (iii) expected deleveraging in line with strong operational cash flow that would enable the company to pursue higher level of growth.

Ownership Structure



MIGROS

Huge expansion in addressable market

We transfer our coverage of Migros with a BUY recommendation and a new 12M target price of TL580/shr. (previously TL385/shr.) after incorporating our higher inflation assumptions and the remarkable cash flow performance. We continue to favor Migros' growth prospects, its unrivaled position in the supermarket segment with a multichannel strategy, rising footprint in various sides (instant delivery, cosmetics, food service, spot product, etc.) of the online delivery business, and healthy balance sheet with a net cash position of TL12bn (excl. lease obligations). The stock showed a remarkable 71% outperformance compared to the BIST 100 in 2023. Yet it still trades at 4.9x 2023e EV/Adj. EBITDA and 8.4x P/E based on our 2024 forecasts, which we deem attractive while offering 35%EBITDA and 38%FCF CAGR for the next three years.

- Delivered a brilliant 2023 performance** Our 2023 revenue growth forecast is 97%, in-line with the shared guidance. The main drivers of a strong revenue performance are market share gains on competitive pricing, aggressive store openings of 455 suggesting 7% y/y floor space growth, and a growing online business.
- Solid FCF margin set to continue** In 2024, we forecast the company will sustain its leadership among the peer group regarding revenue growth with the same drivers while estimating 73% y/y net sales growth. Backed by the operating leverage, we do not expect a material change in margin performance, as we also estimate a satisfactory FCF margin of 3%.
- Exploring new market opportunities** Expansion in the addressable market by penetrating new areas such as fintech, kitchen, and cosmetics service and gaining a significant place in online business may unleash uninterrupted real revenue growth over the coming year. Given its solid balance sheet with hefty cash generation, we expect no issue in financing the expansion strategy. Hence, despite the stock's robust run in 2023, we still believe there is more room to go.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	74,502	105%	145,848	96%	253,018	73%	353,985	40%
EBITDA	5,968	106%	10,167	70%	17,047	68%	24,196	42%
Net Income	2,570	n.m.	5,686	121%	8,086	42%	11,138	38%
P/E (x)	5.1		8.2		8.4		6.1	
EV/EBITDA (x)	2.0		4.0		3.3		2.0	
EV/Sales (x)	0.2		0.3		0.2		0.1	
EPS (TL)	14.2		31.4		44.7		61.5	
Div. Yield (*)	0.0%		1.0%		4.2%		5.9%	
FCF Yield	58.1%		20.3%		25.3%		29.3%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating

BUY

Target Price

TL580.00

Upside (Downside)

54%

Share Data

Ticker	MGROS.TI / MGROS.IS
Close Price	TL376.50
Current MCap. (TL/US\$ mn)	68,167 / 2,271
Number of Shares (mn)	181.054233
Free Float	51%
3m Avg. Daily Turnover (TL/US\$ mn)	542.40 / 18.86

Trading Range (High / Low) (TL)

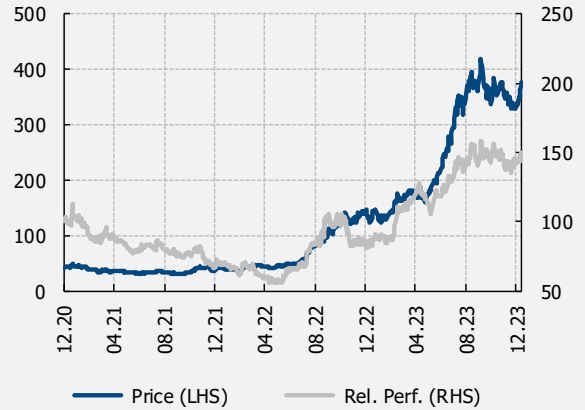
1-month	376.50 / 328.50
1-year	419.00 / 123.23
Ytd	376.50 / 333.25

Performance (TL)

Absolute

Relative

1-month	12%	8%
3-month	0%	3%
1-year	201%	83%
Ytd	12%	5%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	36,272	74,502	145,848	253,018	353,985
Gross Profit	8,755	17,800	34,493	59,333	82,832
Opex	-6,768	-13,010	-26,572	-45,987	-64,395
EBITDA (*)	2,894	5,968	10,167	17,047	24,196
Depreciation	907	1,178	2,246	3,701	5,759
Operating Income	1,987	4,790	7,921	13,346	18,437
Financial Income/Expense	-699	-862	315	926	1,295
Net Other Income/Expense	-1063	-2019	-2144	-4078	-4753
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	225	1,908	6,092	10,194	14,980
Tax	133	672	-365	-2,039	-3,745
Minority Interest/Other	0	10	40	69	97
Net Income	358	2,570	5,686	8,086	11,138
Balance Sheet					
Cash and Liquid Assets	3,635	8,067	16,085	27,573	39,318
Inventories	4,675	10,905	20,746	36,084	50,516
Accounts Receivable	178	487	954	1,655	2,315
Other Current Assets	216	665	665	665	665
Total Current Assets	8,704	20,123	38,449	65,977	92,814
Fixed Assets (**)	3,959	7,195	12,550	20,789	30,931
Financial and Equity Investments	97	603	1,000	1,701	2,380
Other Non-Current Assets (**)	5,340	8,503	10,843	15,633	19,627
Total Non-Current Assets	9,397	16,301	24,393	38,123	52,939
Total Assets	18,100	36,424	62,842	104,100	145,752
Short-Term Debt	2,045	2,443	4,304	7,467	10,447
Accounts Payable	9,582	21,040	38,440	66,861	93,603
Other Current Liabilities	1,482	2,527	3,713	5,636	7,448
Total Current Liabilities	13,109	26,010	46,458	79,964	111,498
Long-Term Debt	4,035	5,012	7,000	8,897	11,335
Other Non-Current Liabilities	420	1,312	637	1,102	1,550
Total Non-Current Liabilities	4,455	6,324	7,637	9,999	12,884
Minority Interest	0	44	200	347	485
Total Shareholders' Equity	536	4,090	8,747	14,137	21,370
Total Liabilities and Equity	18,100	36,424	62,842	104,100	145,752
Cash Flow Statement					
Operating Cash Flow	3,253	7,987	15,700	23,703	28,098
Investing Cash Flow	-507	-2,262	-6,272	-9,484	-12,189
Financing Cash Flow	-2,345	2,267	3,174	5,525	5,865
Dividends Paid	0	0	-472	-2,843	-4,043
Free Cash Flow	2,746	7,667	9,404	17,275	19,969
Net Debt	2,445	-611	-4,780	-11,209	-17,536
Key Ratios					
Gross Margin	24.1%	23.9%	23.7%	23.5%	23.4%
EBITDA Margin	8.0%	8.0%	7.0%	6.7%	6.8%
Net Income Margin	1.0%	3.4%	3.9%	3.2%	3.1%
ROE	125.8%	111.1%	88.6%	70.7%	62.7%
Sales Growth	26%	105%	96%	73%	40%
EBITDA Growth	30%	106%	70%	68%	42%
Earnings Growth	n.m.	n.m.	121%	42%	38%
Net Debt-to-Equity (x)	4.6	n.m.	n.m.	n.m.	n.m.
Net Debt-to-EBITDA (x)	0.8	n.m.	n.m.	n.m.	n.m.

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Migros was established in 1954 as a JV between Migros Cooperatives Union of Switzerland and Istanbul Municipality. Koc Holding became the major shareholder in 1975 which sold its stake to Moonlight, controlled by BC Partners, in 2008. The company's current main shareholder with its c.50% stake and equivalent voting right is Anadolu Group (AGHOL TI).

Migros, the largest supermarket operator in Turkey, is currently running its domestic operations in c.3,400 stores in all 81 cities. Migros' wide sales network and vast experience are crucial factors for sustainable growth as its long-term strong presence in Turkey translates into higher brand awareness, better logistics capabilities and strong purchasing power.

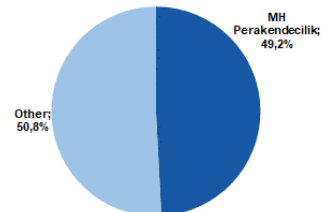
We continue to favor Migros mainly on the back of: (i) its undemanding valuation, (ii) relative strengths compared to its supermarket peers (widest network with best-in class net working capital practices), (iii) ongoing success at store execution with strong cash flow generation and, (iv) its potential to benefit from rising online and mobile sales.

Potential catalysts and risks

Potential catalysts include: i) stronger than expected demand; ii) better operating margins; iii) gaining further market share in on-line markets.

Potential risks include: i) competition, ii) Regulatory changes; iii) cost pressure.

Ownership Structure



SOK MARKETLER

Long-awaited outperformance to continue

We resume our coverage for Sok Marketler with BUY rating and a TP of TL87.60/shr. (previously: UR). Unlike its continuous underperformance, since it went public in 2018, Sok shares have outperformed the benchmark index by 36% following the strong financial results in 2023. For 2023YE, we estimate 80% y/y revenue growth (9M23: 85%), thus at the midpoint of company guidance as we think the supply side issues, which to some degree concerned inadequate warehousing, may persist in 4Q. Therefore, we estimate Sok raising its top line by 67% on the back of 7% floor space growth, yet greater margin pressure with a y/y contraction of c.40bps due to its expense structure. Despite our conservative stance, we calculate a 2% FCF margin for 2024. Adding up all the pros and cons, we expect SOKM to outperform the BIST100, backed by its attractive valuation and solid FCF generation.

- **Revenues on track, but margins curbed.** We expect Sok to post 80% revenue growth in 2023 but still post a 7.1% EBITDA margin due to heightened opex, particularly due to higher utilities and input inflation. Yet, our net earnings expectation for the year-end represents y/y growth of 73% thanks to deferred tax gains primarily amid a quarterly revaluation of assets.
- **The positives outweigh.** The strategy of growing with a greater store size of c.300sqm may result in lower store addition for 2024 (around 700 new stores). Still, the incremental addition may be similar in terms of retail space. On the warehouse side, we expect Sok to require around 18 warehouses on top of its current 39 to ensure supply-side efficiency. This issue ranks among the key risk factors for the growth performance in 2024. Thanks to the inflationary tailwinds, we do not expect a notable revenue loss for now. Also, we see limited downside given our estimation of an FCF yield of c.10%, growth, and net earnings growth prospects well above CPI.

Consolidated Financials and Multiples

(TL.mn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	59,292	109%	106,907	80%	178,794	67%	247,259	38%
EBITDA	4,772	82%	7,624	60%	11,935	57%	16,489	38%
Net Income	2,380	n.m.	3,788	59%	4,799	27%	6,594	37%
P/E (x)	4.2		6.7		6.8		5.0	
EV/EBITDA (x)	2.8		3.2		2.2		1.0	
EV/Sales (x)	0.2		0.2		0.1		0.1	
EPS (TL)	4.0		6.4		8.1		11.1	
Div. Yield (*)	0.0%		1.2%		4.0%		5.1%	
FCF Yield	12.4%		11.7%		19.3%		21.8%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL87.60
Upside (Downside)	58%

Share Data

Ticker	SOKM.TI / SOKM.IS
Close Price	TL55.40
Current MCap. (TL/US\$ mn)	32,868 / 1,095
Number of Shares (mn)	593.290008
Free Float	51%
3m Avg. Daily Turnover (TL/US\$ mn)	479.12 / 16.74

Trading Range (High / Low) (TL)

1-month	58.20 / 52.00
1-year	67.85 / 21.95
Ytd	55.40 / 52.85

Performance (TL)	Absolute	Relative
1-month	1%	-2%
3-month	-15%	-13%
1-year	123%	35%
Ytd	3%	-4%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	28,412	59,292	106,907	178,794	247,259
Gross Profit	6,644	14,097	25,487	41,480	55,633
Opex	-4,856	-10,472	-19,547	-32,109	-42,754
EBITDA (*)	2,622	4,772	7,624	11,935	16,489
Depreciation	834	1,147	1,684	2,563	3,610
Operating Income	1,788	3,625	5,940	9,371	12,879
Financial Income/Expense	-799	-1,209	-2,050	-3,137	-3,534
Net Other Income/Expense	-689	-471	183	-453	-553
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	301	1,945	4,073	5,782	8,792
Tax	18	435	-285	-983	-2,198
Minority Interest/Other	-5	0	0	0	0
Net Income	324	2,380	3,788	4,799	6,594
Balance Sheet					
Cash and Liquid Assets	1,344	859	6,727	15,158	26,011
Inventories	2,849	8,829	14,723	24,829	34,650
Accounts Receivable	100	136	245	410	567
Other Current Assets	77	635	635	635	635
Total Current Assets	4,370	10,458	22,330	41,032	61,863
Fixed Assets (**)	1,953	3,189	4,902	7,876	10,922
Financial and Equity Investments	0	0	0	0	0
Other Non-Current Assets (**)	3,536	5,129	7,099	9,489	10,904
Total Non-Current Assets	5,365	8,319	12,001	17,366	21,825
Total Assets	9,735	18,777	34,331	58,398	83,689
Short-Term Debt	959	1,464	2,112	3,533	4,886
Accounts Payable	5,321	10,269	16,507	30,096	42,000
Other Current Liabilities	785	1,064	1,646	2,525	3,361
Total Current Liabilities	7,066	12,798	20,266	36,154	50,247
Long-Term Debt	2,051	2,811	3,679	4,546	5,566
Other Non-Current Liabilities	122	302	545	911	1,259
Total Non-Current Liabilities	2,173	3,114	4,224	5,456	6,825
Minority Interest	-5	0	0	0	0
Total Shareholders' Equity	501	2,865	9,842	16,788	26,616
Total Liabilities and Equity	9,735	18,777	34,331	58,398	83,689
Cash Flow Statement					
Operating Cash Flow	2,138	3,148	6,289	11,558	12,967
Investing Cash Flow	-661	-1,605	-2,214	-3,757	-3,769
Financing Cash Flow	-1,282	-1,739	1,758	2,653	2,722
Dividends Paid	-80	0	-300	-1,326	-1,680
Free Cash Flow	1,476	1,254	2,980	6,329	7,157
Net Debt	1,666	3,417	-936	-7,079	-15,559
Key Ratios					
Gross Margin	23.4%	23.8%	23.8%	23.2%	22.5%
EBITDA Margin	9.2%	8.0%	7.1%	6.7%	6.7%
Net Income Margin	1.1%	4.0%	3.5%	2.7%	2.7%
ROE	86.1%	141.4%	59.6%	36.0%	30.4%
Sales Growth	33%	109%	80%	67%	38%
EBITDA Growth	25%	82%	60%	57%	38%
Earnings Growth	19%	n.m.	59%	27%	37%
Net Debt-to-Equity (x)	3.3	1.2	n.m.	n.m.	n.m.
Net Debt-to-EBITDA (x)	0.6	0.7	n.m.	n.m.	n.m.

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

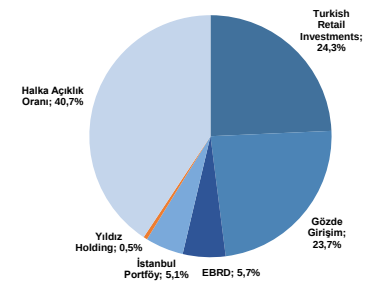
"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

SOK is Türkiye's third largest food retailer with respect to store number, and ranks fourth by turnover. The company operates as a discounter with a quasi-supermarket model, and its value proposition is that of a higher shopping experience through the availability of greater product assortment; this without deviating from the core principles of a hard-discount model relying on lean cost structure and operational efficiencies. We consider SOK to be among the prime candidates to benefit from current trends in the Turkish food retail market. We argue that the company's growing scale its prime competitive advantage against traditional peers (incl. local chains), while we consider its greater product assortment, including the fresh segment, its key distinguishing factor against its hard-discount peers

Potential catalysts; (i) stronger than expected demand, particularly on customer traffic; (ii) deleveraging of balance sheet and (iii) rapid margin expansion in quarterly financials Potential risks; (i) limited tolerance to low growth (ii) intense competition (iii) adverse legislative interventions

Ownership Structure



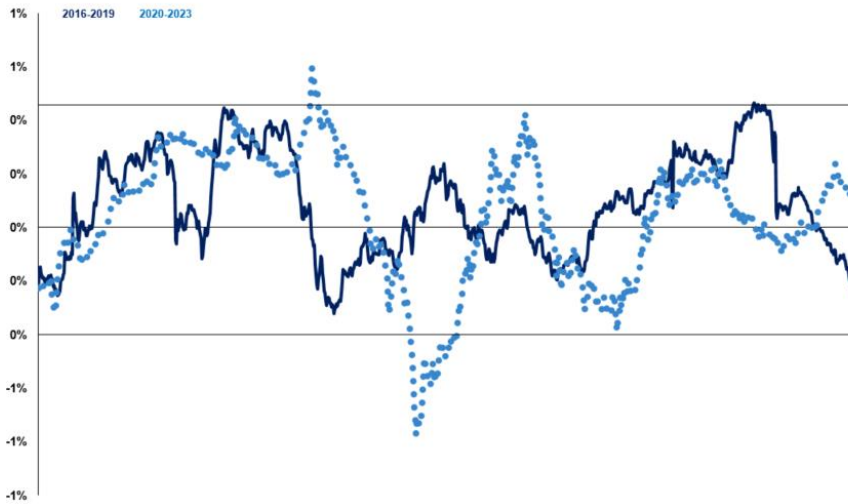
New normal

History doesn't repeat itself, but it often rhymes. Commodity prices tend to follow a cyclical path over certain periods based on seasonal supply-demand imbalances. Currently depressed steel prices are explicitly resulted by weak global demand and Chinese oversupply imbalance. The 2015-2019 average USD600/ton US Midwest HRC prices had skyrocketed to USD1,450/ton, during the post-pandemic super-cycle. Therefore, we still estimate muted steel prices along with historical cyclicalty.

Recessionary fears are being felt. Due to the delayed effect of tight monetary policies, the global steel demand outlook for 2024 is under pressure. And considering the c.50% Chinese share in global consumption, muted domestic demand in that country deepens uncertainty over the 2024 steel market outlook. However, the World Steel Association and the European Steel Association expect global steel consumption to rebound in 2024.

Chinese supply surplus deflates global prices. Weak domestic demand on construction and automotive products, and a supply surplus prompts China to export excess inventory. Consequently, discounted Chinese steel products lead to lower global prices. According to CISA in 2023 year-to-date, Chinese steel exports have recorded a 7-year high exceeding 90mn tons. Ex-China global steelmakers have been experiencing consequent price-led margin pressure in 2023. Unless Chinese demand recovers, we would expect to see a low price environment.

Exhibit 1: Iron Ore Price Seasonality (150-day moving average)



Source: Bloomberg, YKY Research

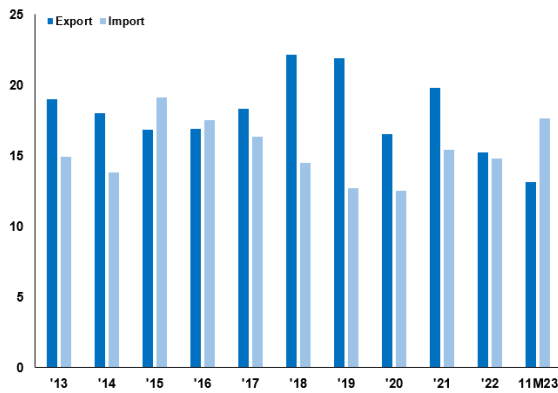
Green tariff on its way. By January 1, 2026, global steelmakers are obliged to integrate renewable energy sources in their energy structure towards becoming carbon neutral. Therefore, the higher-for-longer interest rate environment has placed an additional burden on ongoing energy investments. Amid weak demand and contracting operating margins, decarbonization CapEx cash outflows could pressure the ability to generate free cash flow.

Türkiye as a net importer. For the first time since 2015, Türkiye has become a net importer of steel. In 11M23, Türkiye imported 17.6mn tons, while exporting 13.1mn tons, according to the Turkish Association of Steel Exporters (CIB). The decline in rolled product exports was due mainly to protective measures applied by various countries. Also, the Far East has returned to the global market thanks to post-pandemic relieved freight prices.

Low demand means low utilization. Turkish steelmaking overall Capacity Utilization Rate (CUR) is currently at 50-55% level due to lack of domestic and European demand. Also, increased energy prices have heavily impacted the Turkish steel industry given that it is an Electric Arc Furnace (EAF) dominated market. Muted European demand has not been supportive of exporters either. All in all, the CIB expects exports to exceed 15mn tons in 2024 vs. the 23e 14mn tons. Yet, China-led discounted prices bring uncertainty.

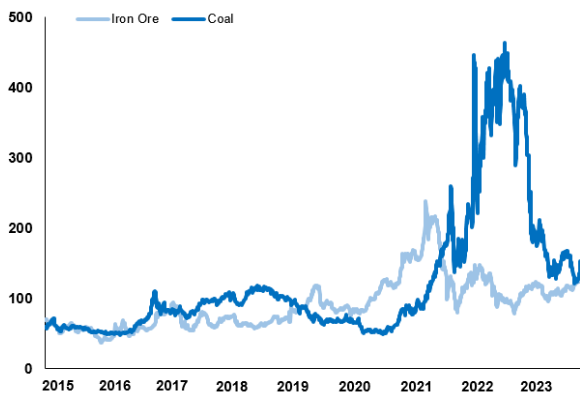
Safeguarding of local mills. Due to domestic steelmakers' lack of competitiveness and correspondingly increased imports, investigations into harmful imports have recently been made. Ongoing protectionism of the domestic steel industry should support higher CUR and expanding margins via pricing ability.

Exhibit 2: Türkiye Export and Import (mn ton)



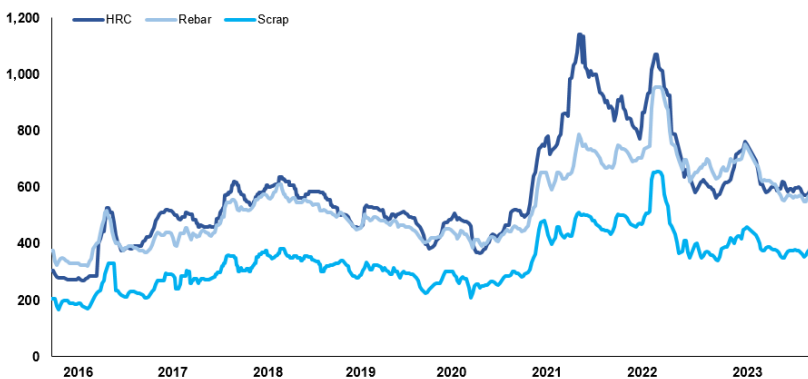
Source: TISPA, YKY Research

Exhibit 3: Raw Material Prices (USD/ton)



Source: Bloomberg, YKY Research

Exhibit 4: Turkish Prices (USD/ton)



Source: Bloomberg, YKY Research

ERDEMİR

Steel needs time

We resume our coverage for Erdemir due to the change in responsible analyst. Our recommendation is 'HOLD' and we set a 12M target share price of TL55/shr. Erdemir's blended flat steel sales price of USD831/ton (vs USD935/ton of post-pandemic 2-yr average) implies limited downside risk as we believe the current USD800/ton levels can be maintained. However, Erdemir's EBITDA/ton declined to USD 82/tonne (5-year average of USD 130/ton pre-pandemic) due to higher coal and iron ore costs (around 64% of COGS as of 9M23) driven by oversupply in China.

Erdemir tries to manage its costs via the recent margin expansionary efforts (via Ermaden and energy investments) and we welcome this effort. The stock is trading at 7.3x EV/EBITDA based on our 2024 estimates and implies 23% discount to its 5-yr historical average. Erdemir stock has underperformed the benchmark index by c.33% in TL terms.

- **Energy investment comes with capacity increase.** The latest USD3bn investment plan regarding net zero carbon emission covers capacity increase as well. Erdemir plans to increase the current 10mn tons of capacity to 13mn tons. Additionally, energy demand will be fully covered by in-house electricity generation through a 1GW solar panel investment. Once the investment becomes operational, we estimate an annual USD400mn energy bill saving (c.40% of our 2024 USD1bn net income).
- **Lower import dependence and better margins.** Ermaden, Erdemir's 90% subsidiary, which supplies 15% of Erdemir's iron ore needs (we estimate 35-40% in 2027) will undertake USD550mn iron pellet investment of 3mn ton additional annual capacity.
- **Risks.** i) muted Chinese demand and low product prices, ii) rising financing costs, iii) TL appreciation.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	127,783	87%	156,527	22%	227,436	45%	304,231	34%
EBITDA	26,655	1%	20,228	-24%	31,380	55%	53,144	69%
Net Income	18,005	16%	-1,163	n.m.	14,310	n.m.	22,219	55%
P/E (x)	6.3		-		10.7		6.9	
EV/EBITDA (x)	4.4		9.9		7.3		5.0	
EV/Sales (x)	0.9		1.3		1.0		0.9	
EPS (TL)	5.1		-0.3		4.1		6.3	
Div. Yield (*)	13.8%		0.0%		0.0%		2.4%	
FCF Yield	8.7%		-48.1%		-9.5%		-20.3%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL55.00
Upside (Downside)	26%

Share Data

Ticker	EREGL.TI / EREGL.IS
Close Price	TL43.80
Current MCap. (TL/US\$ mn)	153,300 / 5,107
Number of Shares (mn)	3500
Free Float	48%
3m Avg. Daily Turnover (TL/US\$ mn)	3,065.85 / 106.51

Trading Range (High / Low) (TL)

1-month	45.04 / 37.76
1-year	49.86 / 29.42
Ytd	45.04 / 41.00

Performance (TL)	Absolute	Relative
1-month	14%	11%
3-month	1%	4%
1-year	11%	-33%
Ytd	7%	0%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	68,227	127,783	156,527	227,436	304,231
Gross Profit	25,516	25,539	19,479	30,686	48,016
Opex	1,101	2,378	4,730	7,266	10,084
EBITDA (*)	26,468	26,655	20,228	31,380	53,144
Depreciation	2,052	3,494	5,478	7,960	15,212
Operating Income	24,416	23,161	14,749	23,419	37,933
Financial Income/Expense	-949	-1,539	-6,261	-9,097	-12,169
Net Other Income/Expense	456	427	3567	5450	4937
Profit (Loss) from Subsidiaries	-6	73	0	0	0
Pre-Tax Income	23,917	22,112	12,055	19,772	30,700
Tax	-7,838	-3,459	-13,260	-4,943	-7,675
Minority Interest/Other	551	648	-42	519	806
Net Income	15,527	18,005	-1,163	14,310	22,219
Balance Sheet					
Cash and Liquid Assets	23,190	15,186	26,312	57,546	68,293
Inventories	28,960	44,152	80,727	88,942	112,313
Accounts Receivable	11,414	15,602	27,875	28,040	33,340
Other Current Assets	2,130	5,715	17,252	20,702	24,842
Total Current Assets	65,694	80,656	152,165	195,230	238,789
Fixed Assets (**)	54,714	85,669	156,091	183,435	215,284
Financial and Equity Investments	371	734	1,067	1,544	1,996
Other Non-Current Assets (**)	5,664	7,835	623	615	631
Total Non-Current Assets	60,749	94,237	157,781	185,594	217,911
Total Assets	126,442	174,894	309,946	380,824	456,700
Short-Term Debt	9,716	21,172	71,172	106,172	141,172
Accounts Payable	6,733	11,228	13,142	18,867	24,569
Other Current Liabilities	7,029	3,508	29,408	32,349	35,584
Total Current Liabilities	23,477	35,909	113,722	157,388	201,325
Long-Term Debt	6,961	8,408	13,408	23,408	33,408
Other Non-Current Liabilities	11,457	11,914	23,829	26,212	28,833
Total Non-Current Liabilities	18,417	20,323	37,237	49,620	62,241
Minority Interest	2,255	3,017	3,872	4,391	5,197
Total Shareholders' Equity	84,548	118,662	158,987	173,816	193,134
Total Liabilities and Equity	126,442	174,894	309,946	380,824	456,700
Cash Flow Statement					
Operating Cash Flow	11,081	22,225	-42,619	19,615	14,461
Investing Cash Flow	-7,521	-12,412	-23,479	-34,115	-45,635
Financing Cash Flow	-3,426	-9,628	55,000	45,000	41,293
Dividends Paid	-6,475	-15,575	0	0	-3,707
Free Cash Flow	3,560	9,812	-66,098	-14,500	-31,173
Net Debt	2,608	2,608	58,269	72,034	106,288
Key Ratios					
Gross Margin	37.4%	20.0%	12.4%	13.5%	15.8%
EBITDA Margin	38.8%	20.9%	12.9%	13.8%	17.5%
Net Income Margin	22.8%	14.1%	n.m.	6.3%	7.3%
ROE	24.7%	17.7%	-0.8%	8.6%	12.1%
Sales Growth	113%	87%	22%	45%	34%
EBITDA Growth	297%	1%	-24%	55%	69%
Earnings Growth	369%	16%	n.m.	n.m.	55%
Net Debt-to-Equity (x)	0.0	0.0	0.4	0.4	0.6
Net Debt-to-EBITDA (x)	0.1	0.1	2.9	2.3	2.0

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

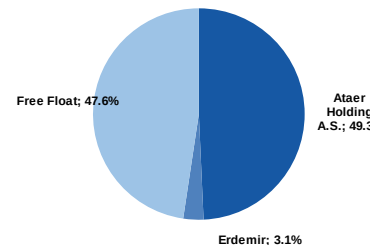
Erdemir, the main company of Oyak Mining Metallurgy and Turkey's largest integrated flat steel producer, entered operation in 1965. It has a liquid steel capacity of 3.85 mn tons/yr.

Isdemir, one of Oyak Mining Metallurgy, is Turkey's sole integrated plant that produces long and flat products with a hot Rolling capacity of 3.5 mn tons/yr. It has a liquid steel capacity of 5.8 mn tons/yr. 95% of Isdemir shares are owned by Erdemir and the rest is freefloat.

EBITDA/ton was USD111/ton in 3Q23 and USD82/ton as of 9M23 (vs USD210/ton in 2022). We estimate above USD150 of EBITDA/ton for 2024-2033, on average.

We used the Discounted Cash Flow method for Erdemir. We assume 22% NOPAT CAGR between 2024-2033 in TL terms with a FCF yield of 11%, on average. Our TL WACC is 20%.

Ownership Structure



KARDEMİR

Long steel

We resume our coverage for Kardemir due to change in responsible analyst. Our recommendation is 'BUY' and we set a 12M target share price of TL40/shr. We expect Kardemir to benefit from the announced nationwide urban transformation package. Accordingly, especially rebar sales volume (25% share as of 9M23 sales volume) should be impacted positively. We foresee above 600k ton/year of rebar sales in 2024 vs 5-yr average of 521k tons. Thanks to alive demand in Türkiye, Kardemir seems to maintain its improved EBITDA/ton in 2024 with USD135 (vs USD118 of pre-pandemic average).

We welcome the recent safeguard measures in Türkiye in order to protect domestic steelmakers. Thus, if necessary, we assume the Turkish authorities will take an action against elevated import. The stock is trading at 3.2x EV/EBITDA and 8.0x P/E based on our 2024 estimates and implies 54% and 25% discount, respectively to its 5-yr historical averages.

- **Protecting domestic steelmakers.** Due to elevated steel imports, domestic steelmakers have been negatively affected by discounted Chinese prices. We assume further steps being taken to protect domestic steel prices. Therefore, we assume protective sales price from downside risk and foresee a blended USD650/ton sales price for Kardemir in 2024 vs USD700/ton as of 9M23.
- **Limited price pressure.** Muted Chinese demand has led to an oversupply imbalance in Türkiye and increased exports. Thus, regional steel prices have been negatively impacted. Yet, thanks to upcoming renovation demand, our 2024 estimate implies 49% top-line growth accompanied by 180bps EBITDA margin improvement.
- **Risks.** i) subdued domestic prices, ii) coal price hikes, iii) TL appreciation.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	27,397	86%	37,827	38%	56,410	49%	72,733	29%
EBITDA	4,324	-12%	5,288	22%	9,034	71%	12,645	40%
Net Income	2,174	-44%	1,501	-31%	3,501	133%	5,441	55%
P/E (x)	6.7		16.3		8.0		5.1	
EV/EBITDA (x)	3.5		4.8		3.2		2.3	
EV/Sales (x)	0.5		0.7		0.5		0.4	
EPS (TL)	2.8		1.9		4.5		7.0	
Div. Yield (*)	6.8%		1.0%		1.6%		3.8%	
FCF Yield	-12.1%		-7.9%		-0.1%		-1.6%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL40.00
Upside (Downside)	53%

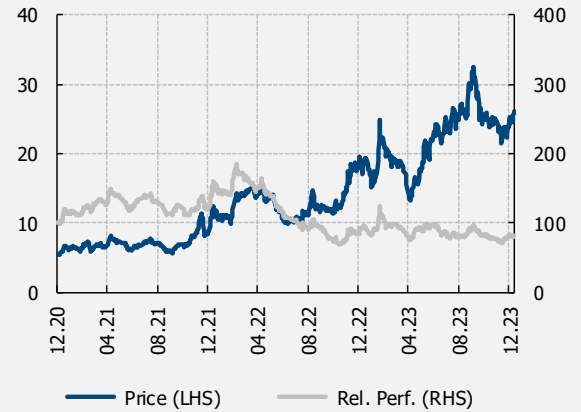
Share Data

Ticker	KRDMD.TI / KRDMD.IS
Close Price	TL26.12
Current MCap. (TL/US\$ mn)	20,380 / 679
Number of Shares (mn)	780.2260016
Free Float	89%
3m Avg. Daily Turnover (TL/US\$ mn)	1,340.29 / 46.71

Trading Range (High / Low) (TL)

1-month	26.12 / 21.38
1-year	32.46 / 13.29
Ytd	26.12 / 23.76

Performance (TL)	Absolute	Relative
1-month	18%	15%
3-month	-10%	-7%
1-year	40%	-15%
Ytd	10%	3%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	14,765	27,397	37,827	56,410	72,733
Gross Profit	4,782	4,269	5,233	9,213	13,205
Opex	137	290	512	1,025	1,650
EBITDA (*)	4,891	4,324	5,288	9,034	12,645
Depreciation	245	345	567	846	1,091
Operating Income	4,645	3,979	4,720	8,188	11,554
Financial Income/Expense	-466	-528	-567	-846	-1,091
Net Other Income/Expense	422	-756	-2259	-2711	-3253
Profit (Loss) from Subsidiaries	1	25	30	36	44
Pre-Tax Income	4,467	2,533	1,924	4,667	7,254
Tax	-614	-359	-423	-1,167	-1,814
Minority Interest/Other	0	0	0	0	0
Net Income	3,853	2,174	1,501	3,501	5,441
Balance Sheet					
Cash and Liquid Assets	5,357	1,891	2,627	4,766	6,518
Inventories	3,197	7,945	9,823	12,931	17,124
Accounts Receivable	1,692	4,192	4,664	6,955	8,967
Other Current Assets	2,093	2,393	2,872	3,446	4,135
Total Current Assets	12,338	16,421	19,985	28,097	36,745
Fixed Assets (**)	9,428	10,037	10,613	12,597	15,154
Financial and Equity Investments	19	42	70	98	121
Other Non-Current Assets (**)	31	140	67	53	43
Total Non-Current Assets	9,477	10,219	10,749	12,748	15,318
Total Assets	21,815	26,640	30,735	40,845	52,062
Short-Term Debt	1,037	1,146	2,146	3,146	4,646
Accounts Payable	6,082	7,657	7,144	10,991	13,863
Other Current Liabilities	2,472	3,829	4,615	5,538	6,646
Total Current Liabilities	9,590	12,632	13,905	19,675	25,154
Long-Term Debt	1,575	1,340	1,640	2,640	3,640
Other Non-Current Liabilities	688	1,207	1,448	1,738	2,086
Total Non-Current Liabilities	2,263	2,546	3,088	4,377	5,725
Minority Interest	0	0	0	0	0
Total Shareholders' Equity	9,962	11,461	13,742	16,792	21,183
Total Liabilities and Equity	21,815	26,640	30,735	40,845	52,062
Cash Flow Statement					
Operating Cash Flow	5,673	-991	-795	2,795	3,197
Investing Cash Flow	-155	-760	-1,135	-2,820	-3,637
Financing Cash Flow	-1,005	-923	1,300	1,550	1,450
Dividends Paid	0	-1,000	-250	-450	-1,050
Free Cash Flow	5,518	-1,752	-1,930	-26	-440
Net Debt	426	426	1,161	1,023	1,771
Key Ratios					
Gross Margin	32.4%	15.6%	13.8%	16.3%	18.2%
EBITDA Margin	33.1%	15.8%	14.0%	16.0%	17.4%
Net Income Margin	26.1%	7.9%	4.0%	6.2%	7.5%
ROE	55.6%	20.3%	11.9%	22.9%	28.7%
Sales Growth	96%	86%	38%	49%	29%
EBITDA Growth	293%	-12%	22%	71%	40%
Earnings Growth	n.m.	-44%	-31%	133%	55%
Net Debt-to-Equity (x)	0.0	0.0	0.1	0.1	0.1
Net Debt-to-EBITDA (x)	0.1	0.1	0.2	0.1	0.1

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

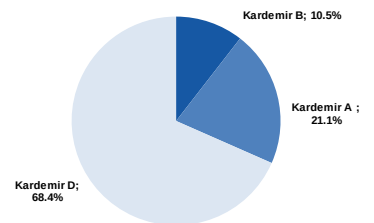
Company Description

Kardemir is the first integrated long steel producer of Türkiye, established in 1937 by the Turkish Government. It was controlled by the State until 1995.

The company produces billet, rebar, profile, railway and railway wheels. It currently has 700K tons of billet casting capacity for rail and profile and 450K tons bloom casting for rebar and billet products. In addition, it has 831.6 tons of billet casting for bar and wire rod products. Railway, profile, wire rod and ray products are more value added and offer higher margins than billets and rebar. Although Türkiye is a net exporter in the long term, Kardemir sells majority of its products to the domestic market.

We used the Discounted Cash Flow method for Kardemir. We assume 16% NOPAT CAGR between 2024-2033 in TL terms with a FCF yield of 7%, annually on average. Our TL WACC is 20%.

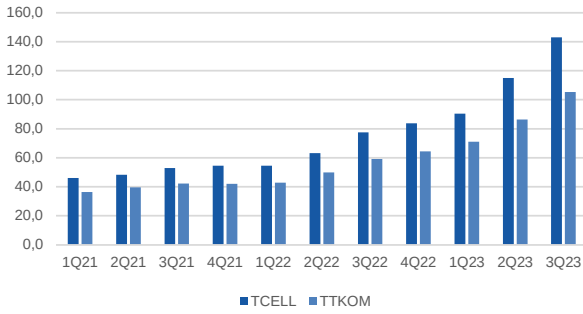
Ownership Structure



Inflationary pricing impact to be seen more widely

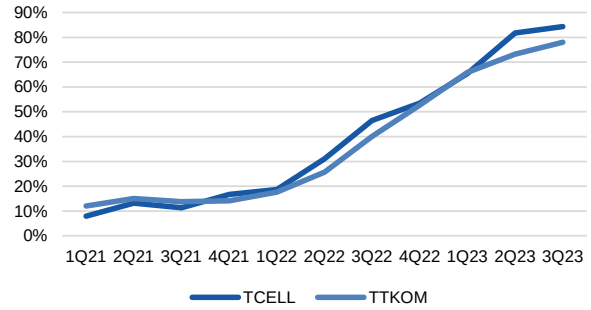
Throughout 2023 demand for fixed broadband remained high and mobile internet usage also increased. The sector players continue to revise their prices, including mobile inflationary pricing and fixed broadband price rebalancing. These developments are expected to result in a further rise in ARPU growth in 2024. Even with the lagged impact of inflation on ARPU growth declining in 2024, we expect it to remain well above avg. CPI expectations supported by ongoing dynamic pricing and an emphasis on upselling efforts. On the subscriber base side, additions were quite strong, which we attribute to higher penetration and long-term visitor impact and we see resilient subscriber addition is likely to persist in 2024 as well. On the other hand, we believe that the increase in the cost of prepaid subscriptions on the mobile side in the wake of the regulations may drive customers to the post-paid side which drives higher ARPU generation.

Graph 1: Mobile (Blended) ARPU Performance - TL



Source: Bloomberg, YKY Research

Graph 2: Mobile (Blended) ARPU Growth



Source: Bloomberg, YKY Research

We think that energy costs and personnel expenses may pressure margin performance. Accordingly, we now calculate a c.150bps EBITDA margin contraction for TCELL. On the other hand, for TTKOM, we are more positive while believing that the lagged impact of renewal of the subscriber contract will be more deceive and result in a margin expansion of c.170bps y/y following the prospect of ARPU growth of well above cost increases. On the operating capex front, the renewable energy, data center investments for TCELL, and infrastructure investments and renewable energy investments for TTKOM may result in a slightly higher operating capex for the players.

TURKCELL

Safer play with real ARPU growth

We are updating our figures for TCELL raising our TP to TL88.8/shr. (previous: UR) while leaving our BUY rating unchanged in light of our new macro assumptions and ARPU growth (c.70% y/y) and subscriber addition projection (1.1mn). We think the price increases, upsell efforts, and an expanding subscriber base will remain the key revenue drivers for 2024, although higher energy and personnel costs may curb margins on a some degree. Based on our forecasts, the stock trades at a 3.1x EV/EBITDA (5-year avg.: 5.5x), which we deem promising considering it provides a safe play amid its well-above real ARPU growth prospects. Also, a strong TL scenario in 2024 might provide a further boost for FCF, in our view.

- **Expecting 60% top-line growth for 2024** We forecast revenue growth remaining intact, mainly driven by price adjustments and upsell to higher tariffs, as well as a larger postpaid subscriber base. Note that our mobile ARPU estimate is at 70% for the full year. However, our EBITDA margin calculation points to a 150bps decline y/y due to rising energy costs and higher employee expenses.
- **The sale of Ukraine operations on the horizon** The Company is negotiating to sell its operations in Ukraine, which accounted for 9% of total revenues in 9M23. If the transaction is completed, it will reduce the company's revenue outlook for 2024.
- **Rising opt. capex might dent FCF generation** The Company has been investing in renewable energy production, mainly in solar panels and wind power plants, to reduce its energy cost. The company plans to meet 65% of its electricity usage by 2026. Also, with the additional data center investments over the coming years and the earthquake's impact, we expect opt. capex is at 23% levels for 2024 and the subsequent few years.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	53,878	50%	93,111	73%	148,962	60%	197,809	33%
EBITDA	21,994	46%	39,777	81%	61,627	55%	81,066	32%
Net Income	11,053	120%	16,679	51%	25,713	54%	34,015	32%
P/E (x)	4.5		5.8		5.2		3.9	
EV/EBITDA (x)	3.2		3.3		3.1		2.5	
EV/Sales (x)	1.3		1.4		1.3		1.0	
EPS (TL)	5.0		7.6		11.7		15.5	
Div. Yield (*)	2.5%		2.3%		2.5%		3.7%	
FCF Yield	6.0%		4.0%		3.0%		5.2%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating

BUY

Target Price

TL88.80

Upside (Downside)

46%

Share Data

Ticker	TCELL.TI / TCELL.IS
Close Price	TL61.00
Current MCap. (TL/US\$ mn)	134,200 / 4,471
Number of Shares (mn)	2200
Free Float	54%
3m Avg. Daily Turnover (TL/US\$ mn)	1,717.47 / 59.58

Trading Range (High / Low) (TL)

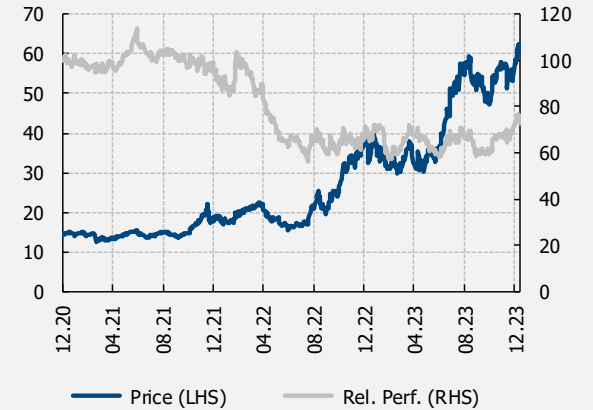
1-month	62.50 / 51.22
1-year	62.50 / 29.98
Ytd	62.50 / 56.10

Performance (TL)

Absolute

Relative

1-month	12%	8%
3-month	15%	18%
1-year	82%	10%
Ytd	9%	2%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

Yapı Kredi Invest Research
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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	35,921	53,878	93,111	148,962	197,809
Gross Profit	10,691	17,090	34,637	55,116	73,585
Opex	-2,698	-4,219	-8,194	-11,917	-15,429
EBITDA (*)	15,014	21,994	39,777	61,627	81,066
Depreciation	7,252	9,289	12,634	17,308	21,981
Operating Income	7,993	12,871	26,443	43,199	58,156
Financial Income/Expense	-10,145	-13,489	-20,484	-33,070	-43,914
Net Other Income/Expense	6603	8226	12291	19961	26506
Profit (Loss) from Subsidiaries	90	-71	-123	-197	-262
Pre-Tax Income	4,541	7,536	18,126	29,893	40,487
Tax	490	3,516	-1,450	-4,185	-6,478
Minority Interest/Other	0	-1	-3	-5	-6
Net Income	5,031	11,053	16,679	25,713	34,015
Balance Sheet					
Cash and Liquid Assets	18,684	30,744	52,472	63,996	91,702
Inventories	261	278	641	1,028	1,361
Accounts Receivable	4,332	6,742	11,650	18,639	24,751
Other Current Assets	6,235	9,043	16,089	22,575	28,251
Total Current Assets	29,512	46,807	80,853	106,238	146,065
Fixed Assets (**)	32,616	39,598	59,931	95,880	127,321
Financial and Equity Investments	1,377	2,109	1,244	1,800	2,089
Other Non-Current Assets (**)	7,178	12,751	19,230	26,556	34,254
Total Non-Current Assets	41,171	54,458	80,404	124,236	163,664
Total Assets	70,683	101,265	161,257	230,474	309,729
Short-Term Debt	8,848	16,721	29,897	39,830	51,391
Accounts Payable	5,038	7,822	12,015	19,283	25,526
Other Current Liabilities	3,205	4,716	10,550	16,878	22,412
Total Current Liabilities	17,091	29,259	52,462	75,992	99,329
Long-Term Debt	27,930	37,133	58,172	81,066	107,648
Other Non-Current Liabilities	3,099	3,978	4,004	4,040	4,072
Total Non-Current Liabilities	31,029	41,111	62,175	85,106	111,721
Minority Interest	0	4	7	8	9
Total Shareholders' Equity	22,562	30,895	46,620	69,377	98,679
Total Liabilities and Equity	70,683	101,265	161,257	230,474	309,729
Cash Flow Statement					
Operating Cash Flow	21,171	17,970	27,022	42,755	55,652
Investing Cash Flow	-10,362	-14,993	-34,477	-55,550	-69,308
Financing Cash Flow	-3,942	3,623	27,762	25,537	30,478
Dividends Paid	-2,586	-1,258	-2,260	-3,410	-5,010
Free Cash Flow	10,810	2,977	3,845	4,092	6,982
Net Debt	18,094	21,221	35,597	56,900	67,338
Key Ratios					
Gross Margin	29.8%	31.7%	37.2%	37.0%	37.2%
EBITDA Margin	41.8%	40.8%	42.7%	41.4%	41.0%
Net Income Margin	14.0%	20.5%	17.9%	17.3%	17.2%
ROE	23.2%	41.4%	43.0%	44.3%	40.5%
Sales Growth	23%	50%	73%	60%	33%
EBITDA Growth	22%	46%	81%	55%	32%
Earnings Growth	19%	120%	51%	54%	32%
Net Debt-to-Equity (x)	0.8	0.7	0.8	0.8	0.7
Net Debt-to-EBITDA (x)	1.2	1.0	0.9	0.9	0.8

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)
"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Turkcell is a digital operator headquartered in Turkey, serving its customers with its unique portfolio of digital services along with voice, messaging, data and IPTV services on its mobile and fixed networks.

Turkcell Group companies operate in 4 countries; Turkey, Ukraine, Belarus, Northern Cyprus.

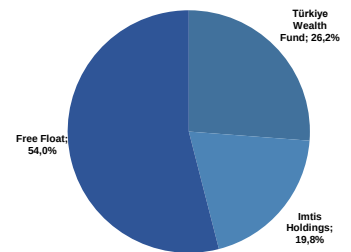
Strong revenue growth was realized mainly due to strong ARPU performance of Turkcell Turkey with a growing postpaid customer base and continued upsell efforts supported by higher data consumption, as well as digital services usage.

Potential catalyst and risks:

Potential catalyst: i. Strong subscriber gain together with higher ARPU and ii. Higher data consumption.

Potential risk: i) Increase in Special Consumption Tax, since all telecom companies are focusing on increasing its data usage to get a higher ARPU, ii) more aggressive than anticipated pricing war, and deterioration at macro environment.

Ownership Structure



TURK TELEKOM

An improving outlook

We increase our 12M target price for Turk Telekom to TL45.90/shr (previous: UR) while initiating our BUY rating on the back of the improved growth and operating profitability outlook. We expect the company to end the year largely in line with the shared guidance, printing 69% y/y revenue growth with a 33.5% EBITDA margin. For 2024, on the back of i) price hikes, ii) the ongoing re-contracting of the existing customer base, iii) the customer shift from pre-paid to post-paid, iv) solid subscriber addition, and v) upsell efforts, we foresee net sales growth to remain intact, especially in 1H24. Accordingly, we expect 65% y/y top-line and 73% EBITDA growth in 2024. TTKOM shares trade at 3.5x EV/EBITDA based on 2024 estimates, signaling a discount of c.20% compared to its five-year historical multiples which gives us further confidence towards the stock.

- **Upward momentum in ARPU growth continues** - We expect the uptrend in ARPU growth to continue in the fixed broadband and mobile segments through dynamic pricing and an upsell focus. We estimate consolidated revenues rising 65% y/y with a c.69% increase in fixed broadband and c.71% increase in mobile for 2024.
- **Operating profitability set to improve despite cost overruns** - We have a strong outlook regarding ARPU growth, which will outweigh the adverse impact of the high minimum wage hike and rising energy expenses. On the operating capex front, ongoing infrastructure investments and the planned renewable energy initiatives with a capacity of 400 MW might lead to a slight rise in the Opt. Capex/Sales ratio, in our view.
- **Risks** i) Weaker than expected prices, ii) Cut-throat irrational competition on the mobile front, and iii) Any regulatory intervention.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	48,042	40%	81,068	69%	133,769	65%	173,996	30%
EBITDA	19,148	17%	27,118	42%	47,019	73%	62,176	32%
Net Income	4,135	-28%	7,264	76%	11,702	61%	19,543	67%
P/E (x)	9.7		10.0		8.5		5.1	
EV/EBITDA (x)	3.2		4.5		3.5		2.8	
EV/Sales (x)	1.3		1.5		1.2		1.0	
EPS (TL)	1.2		2.1		3.3		5.6	
Div. Yield (*)	12.3%		0.0%		0.0%		0.0%	
FCF Yield	7.4%		-2.2%		-1.2%		0.7%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	BUY
Target Price	TL45.90
Upside (Downside)	61%

Share Data

Ticker	TTKOM.TI / TTKOM.IS
Close Price	TL28.56
Current MCap. (TL/US\$ mn)	99,960 / 3,330
Number of Shares (mn)	3500
Free Float	13%
3m Avg. Daily Turnover (TL/US\$ mn)	1,122.94 / 38.96

Trading Range (High / Low) (TL)

1-month	28.56 / 23.20
1-year	28.56 / 13.19
Ytd	28.56 / 24.36

Performance (TL)	Absolute	Relative
1-month	16%	12%
3-month	34%	39%
1-year	35%	-18%
Ytd	17%	10%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

Yapı Kredi Invest Research
YKY Arastirma@yapikredi.com.tr

Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	34,273	48,042	81,068	133,769	173,996
Gross Profit	14,868	18,465	31,130	55,514	73,774
Opex	-5,653	-8,641	-16,700	-26,620	-32,363
EBITDA (*)	16,415	19,148	27,118	47,019	62,176
Depreciation	6,169	8,085	11,238	15,733	18,879
Operating Income	9,215	9,824	14,430	28,894	41,411
Financial Income/Expense	-3,431	-9,875	-14,349	-23,543	-30,449
Net Other Income/Expense	-164	1888	2513	5485	7134
Profit (Loss) from Subsidiaries	0	0	0	0	0
Pre-Tax Income	5,621	1,836	2,594	10,835	18,096
Tax	141	2,298	4,670	867	1,448
Minority Interest/Other	0	0	0	0	0
Net Income	5,761	4,135	7,264	11,702	19,543
Balance Sheet					
Cash and Liquid Assets	7,697	10,006	18,854	26,145	42,284
Inventories	440	683	1,156	1,806	2,313
Accounts Receivable	6,582	8,758	14,779	24,387	31,720
Other Current Assets	6,060	6,741	12,508	17,710	21,945
Total Current Assets	20,779	26,188	47,297	70,048	98,262
Fixed Assets (**)	33,261	47,679	77,455	110,407	142,609
Financial and Equity Investments	14	25	131	200	280
Other Non-Current Assets (**)	4,284	6,841	11,405	14,571	18,811
Total Non-Current Assets	37,558	54,544	88,990	125,178	161,700
Total Assets	58,338	80,732	136,287	195,226	259,962
Short-Term Debt	7,117	12,318	35,786	51,050	64,902
Accounts Payable	7,729	9,469	16,038	25,052	32,084
Other Current Liabilities	3,151	4,579	8,225	13,658	17,766
Total Current Liabilities	17,997	26,366	60,050	89,760	114,752
Long-Term Debt	22,686	29,602	32,452	41,548	54,042
Other Non-Current Liabilities	3,405	4,793	8,548	14,068	18,281
Total Non-Current Liabilities	26,091	34,395	41,000	55,615	72,322
Minority Interest	0	0	0	0	0
Total Shareholders' Equity	14,250	19,970	35,237	49,851	72,888
Total Liabilities and Equity	58,338	80,732	136,287	195,226	259,962
Cash Flow Statement					
Operating Cash Flow	21,171	17,970	16,456	26,420	37,487
Investing Cash Flow	-10,362	-14,993	-29,153	-42,029	-54,779
Financing Cash Flow	-3,942	3,623	25,508	26,713	26,319
Dividends Paid	-1,873	-4,955	0	0	0
Free Cash Flow	10,810	2,977	-1,626	-1,190	741
Net Debt	18,094	21,221	49,384	66,453	76,660
Key Ratios					
Gross Margin	43.4%	38.4%	38.4%	41.5%	42.4%
EBITDA Margin	47.9%	39.9%	33.5%	35.1%	35.7%
Net Income Margin	16.8%	8.6%	9.0%	8.7%	11.2%
ROE	43.8%	24.2%	26.3%	27.5%	31.8%
Sales Growth	21%	40%	69%	65%	30%
EBITDA Growth	24%	17%	42%	73%	32%
Earnings Growth	81%	-28%	76%	61%	67%
Net Debt-to-Equity (x)	1.3	1.1	1.4	1.3	1.1
Net Debt-to-EBITDA (x)	1.1	1.1	1.8	1.4	1.2

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

Türk Telekom is the incumbent and wholesale provider in fixed voice and fixed broadband market while the biggest player in wholesale and retail broadband market and the third player in mobile market.

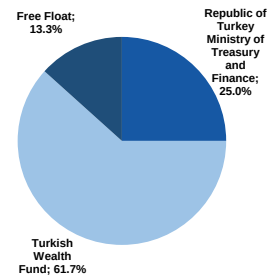
Türk Telekom also owns the 100% of convergence technologies company Argela, IT solution provider Innova, online training software company Sebit, call center company AssisTT, wholesale data and capacity service provider Turk Telekom International and its subsidiaries.

Potential catalysts and risks:

Potential catalyst: i) Lower competition on the mobile side, ii) Developments regarding 5G, and iii) Higher than expected growth on fixed broadband.

Potential risk: i) Uncertainty regarding the fixed-line concession agreement, ii) market share loss in fixed broadband, and iii) Pricing pressure.

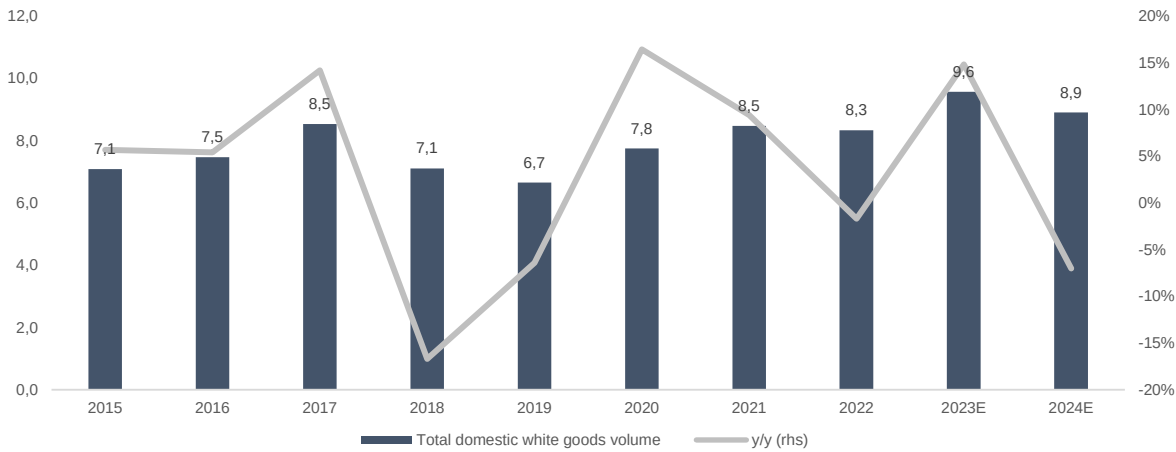
Ownership Structure



Moderation in demand on the horizon

Domestic Sell-in volumes posted a c.15% rise in 11M23 on the back of i) pulled-forward demand in an inflationary environment, ii) low interest rates, which resulted in higher demand, and iii) the low base of 2022. Accordingly, the washing machine & dryer segment gave the highest performance with 36% y/y growth. The refrigerator & freezer category grew by 10% and the dishwasher category by 5%. The oven segment, on the other hand, contracted by 2%.

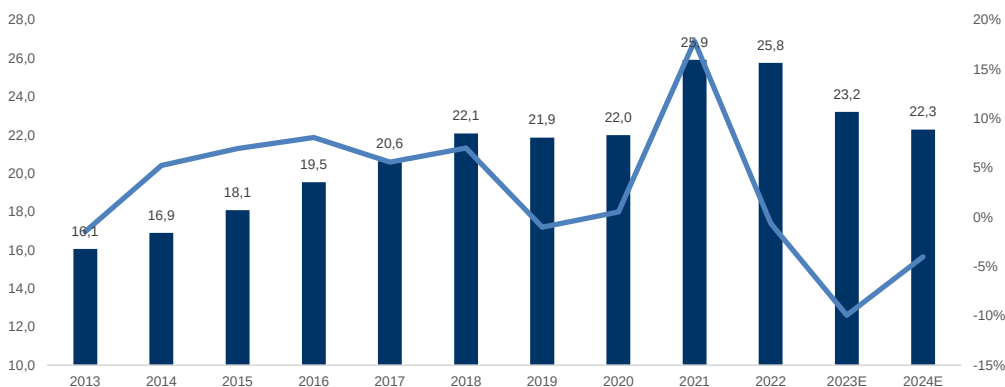
Exhibit 1: Total domestic consumption (mn units)



Source: YKY Research, TURKBESD

Regarding 2024, the outlook seems rather mixed. We expect white goods sales to start the year robustly thanks to a low base and sharp rise in the minimum wage. Yet the pre-election macro environment may put some pressure on sales. For 2H24, we are more cautious on the demand side due to diminishing purchasing power amid high inflation and interest rates. Consequently, we project a 7% y/y contraction in the market for this year. We think that a possible installment limit on white goods purchases made with credit cards, as Minister Mehmet Simsek signaled in his recent statements, may exacerbate the sector's contraction. On the export side, total export shipments were down by 11% y/y as of 11M23 due to weakened customer sentiment in a recessionary environment, primarily in Europe. The dishwasher category was the weakest performer, with a 24% y/y decline, while and the refrigerator & freezer category contracted by 16% y/y. The washing machine & Dryer and Oven categories were down by 3% y/y each. By considering the ongoing recessionary headwinds, primarily in Europe, we do not expect an instant recovery. Yet through 2H24, postponed demand may lead to some improvement. Finally, we remind you that a scenario of a strong EURUSD in 2024 is likely to support sector profitability.

Exhibit 2: Turkey export volumes (mn units)



Source: YKY Research, TURKBESD

ARCELİK

Rated hold on a mixed outlook

We transfer our coverage for Arcelik due to the change in responsible analyst, with a HOLD recommendation and a TP of TL185/shr (previous: UR). 2023 has been quite a vital year for the domestic sector, which grew by 15% y/y in 11M23. ARCLK also managed to increase its domestic revenues (38% of total sales) by 98% y/y in 9M23. Nevertheless, Int'l operations remained pressured due to recessionary headwinds in Europe (again 38% of total sales), declining by a limited 8% y/y in EUR terms. In 2023YE, we expect 54% y/y revenue growth and 82% y/y EBITDA growth on consolidated basis. However, 2024 is likely to be more difficult due to higher interest rates and affordability concerns with inflationary impacts starting from 2H24. Although ARCLK shares have underperformed the BIST100 by 15% in 2023 and the current valuation incorporates some of these risks, we prefer to remain cautious at this stage.

- **Outlook seems mixed** Low input costs of plastic and steel may support margin performance for 2024. Also, appreciation of the EUR/USD might further contribute to the margin. Considering these, we foresee the EBITDA margin remaining at 10.5% in 2024. However, we believe 2024 may be another year of negative cash generation due to high amount of working capital requirement.
- **Eyes on the UK Competition Authority** The UK Competition Authority (CMA) had launched an in-depth investigation into the merger of Arcelik and Whirlpool Co. claiming that the transaction may be expected to result in a substantial reduction of competition in the UK. The statutory deadline for the Phase II investigation is March 26th 2024. Note that the EU competition watchdog has approved the merger. In our view, any positive news on that front may attract investor interest.
- **Risks:** i) Worsening macro conditions, ii) Depreciation of EURUSD, iii) Delay to/cancellation of the merger.

Consolidated Financials and Multiples

(TLmn)	2022	Δ	2023E	Δ	2024E	Δ	2025E	Δ
Revenue	133,916	96%	206,221	54%	313,051	52%	422,178	35%
EBITDA	11,859	73%	21,539	82%	32,862	53%	43,795	33%
Net Income	4,325	41%	4,233	-2%	6,047	43%	9,370	55%
P/E (x)	11.0		20.8		14.8		9.5	
EV/EBITDA (x)	6.5		6.7		5.1		4.1	
EV/Sales (x)	0.6		0.7		0.5		0.4	
EPS (TL)	6.4		6.3		8.9		13.9	
Div. Yield (*)	3.2%		2.0%		0.9%		1.4%	
FCF Yield	-10.7%		-13.7%		-13.4%		1.5%	

(*) yields are based on payment dates

Source: Company Financials, YKY Research

Rating	HOLD
Target Price	TL185.00
Upside (Downside)	40%

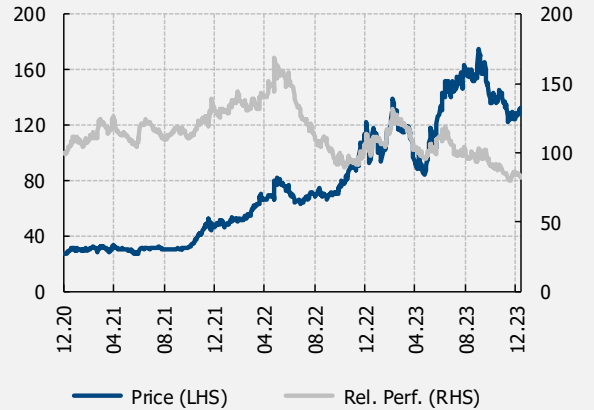
Share Data

Ticker	ARCLK.TI / ARCLK.IS
Close Price	TL132.30
Current MCap. (TL/US\$ mn)	89,399 / 2,978
Number of Shares (mn)	675.728205
Free Float	15%
3m Avg. Daily Turnover (TL/US\$ mn)	500.47 / 17.47

Trading Range (High / Low) (TL)

1-month	132.30 / 122.50
1-year	175.00 / 83.70
Ytd	132.30 / 126.10

Performance (TL)	Absolute	Relative
1-month	5%	2%
3-month	-17%	-14%
1-year	34%	-19%
Ytd	3%	-4%



as of Jan 12, 2024

Relatives are against the BIST-100 Total Return Index

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Financial Summary (TLmn)	2021	2022	2023E	2024E	2025E
Income Statement					
Total Revenues	68,184	133,916	206,221	313,051	422,178
Gross Profit	20,478	39,493	66,447	102,644	137,044
Opex	-15,471	-30,945	-49,683	-75,632	-99,658
EBITDA (*)	6,853	11,859	21,539	32,862	43,795
Depreciation	1,846	3,311	4,775	5,851	6,409
Operating Income	5,008	8,548	16,764	27,012	37,387
Financial Income/Expense	-3,660	-6,289	-8,928	-14,589	-18,654
Net Other Income/Expense	2320	2029	-2495	-4101	-5868
Profit (Loss) from Subsidiaries	-45	-69	-72	-112	-144
Pre-Tax Income	3,623	4,218	5,268	8,209	12,721
Tax	-372	505	-421	-1,231	-1,908
Minority Interest/Other	-186	-398	-613	-931	-1,443
Net Income	3,065	4,325	4,233	6,047	9,370
Balance Sheet					
Cash and Liquid Assets	16,015	24,529	37,378	37,046	49,645
Inventories	16,829	29,237	45,953	69,175	93,743
Accounts Receivable	23,412	34,193	67,799	102,921	138,798
Other Current Assets	3,340	4,027	7,000	8,750	10,938
Total Current Assets	59,595	91,986	158,130	217,892	293,123
Fixed Assets (**)	19,699	30,577	44,052	48,200	47,985
Financial and Equity Investments	11	39	49	61	76
Other Non-Current Assets (**)	5,775	9,640	16,641	21,296	25,108
Total Non-Current Assets	25,484	40,256	60,742	69,556	73,169
Total Assets	85,079	132,243	218,871	287,449	366,292
Short-Term Debt	13,044	35,229	52,230	67,143	90,548
Accounts Payable	19,669	30,928	57,441	86,469	117,178
Other Current Liabilities	7,788	13,203	21,331	32,381	43,669
Total Current Liabilities	40,502	79,359	131,003	185,993	251,395
Long-Term Debt	19,535	16,210	38,355	42,154	43,248
Other Non-Current Liabilities	3,986	9,568	11,768	14,634	17,562
Total Non-Current Liabilities	23,522	25,778	50,122	56,788	60,810
Minority Interest	1,672	2,158	3,283	4,958	6,687
Total Shareholders' Equity	21,055	27,106	37,746	44,668	54,087
Total Liabilities and Equity	85,079	132,243	218,871	287,449	366,292
Cash Flow Statement					
Operating Cash Flow	-3,750	431	-9,643	-8,119	-4,856
Investing Cash Flow	-5,603	-7,202	-13,427	-14,748	-9,060
Financing Cash Flow	14,484	20,576	34,345	16,923	23,615
Dividends Paid	-1,500	-1,500	-1,800	-847	-1,209
Free Cash Flow	-7,565	-5,091	-12,038	-11,937	1,350
Net Debt	16,565	26,910	53,207	72,250	84,151
Key Ratios					
Gross Margin	30.0%	29.5%	32.2%	32.8%	32.5%
EBITDA Margin	10.1%	8.9%	10.4%	10.5%	10.4%
Net Income Margin	4.5%	3.2%	2.1%	1.9%	2.2%
ROE	17.5%	18.0%	13.1%	14.7%	19.0%
Sales Growth	67%	96%	54%	52%	35%
EBITDA Growth	35%	73%	82%	53%	33%
Earnings Growth	8%	41%	-2%	43%	55%
Net Debt-to-Equity (x)	0.8	1.0	1.4	1.6	1.6
Net Debt-to-EBITDA (x)	2.4	2.3	2.5	2.2	1.9

Source: Company Financials, YKY Research

(*) EBITDA= (Sales - COGS - Opex + Depreciation) Fully based on IFRS financials and might differ from company (**)

"Fixed Assets" include tangible plus intangible while goodwill is classified under "Other Non-Current Assets"

Company Description

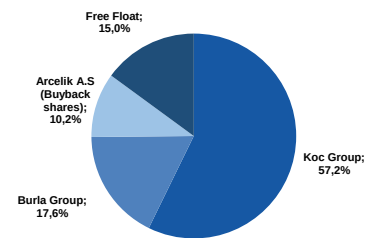
Arcelik, founded in 1955, Türkiye's leading household appliance manufacturer, is engaged in the production and marketing of consumer durable goods, consumer electronics, small home appliances and kitchen accessories.

The company offers products and services in more than 150 countries through 28 factories spread across 9 countries (Turkey, China, Romania, Russia, S. Africa, Thailand, Pakistan, India, and Bangladesh), 52 subsidiaries, and about 45,000 employees.

It is a dominant player in Turkish white goods sector with more than 50% market share and a significant white goods exporter, mostly to Europe.

Arcelik has also sizeable operations in Pakistan (Dawlance), South Africa (Defy), Bangladesh (Singer) and a JV with Tata in India.

Ownership Structure



Research Rating and Important Disclosures

1. Important Disclosures

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