TURKISH EQUITIES / COMPANY UPDATE

# Kocaer Steel

19 June 2025

**Outperform**
***(Maintained)***

Close Price: TRY 12.45
12M Target Price: TRY21.50
Upside Potential: 73%

## From Steel to Green Strategy…

**We are maintaining our Outperform rating for Kocaer Steel with a new TP of TRY21.50/share, suggesting 73% upside potential. Following a major post-IPO investment cycle focused on modernization, service center capacity increase and green energy integration, Kocaer now stands out as one of the most structurally differentiated players in the Turkish steel industry. Unlike integrated steel players in BIST-Universe, Kocaer's model centers around value-added, export-oriented, and customer-specific steel profile manufacturing—with nearly 80% of sales volume exported which makes it beneficiary of the emergence of the up-cycle in the West where the prices YtD surged by an average of 27%. In terms of profitability, on top of an expected 10% volume growth in 2025 on the competition of modernization investments, we expect the company's QoQ EBITDA/ton improvement in 1Q25 to be sustained in the coming quarters with an average EBITDA/ton of USD140 for the full year, implying a 44% EBITDA growth in USD-terms. With diminishing effect of FX-losses on cash flow hedging mechanism, we also calculate a net income increase from USD2.5mn in 2024 to USD44.3mn for 2025, implying a ROE level of 16.0% vs. its global peers' average of 6.6%. The stock trades at 6.8x EV/EBITDA vs. an average of 9.2x for its rolling mill global peers that the multiple level discounted to 4.3x on our 2026 forecasts. On top of relatively resilient operational prospects, the company's transition plans into green steel and value-added steel solutions by 2030 makes the company highly unique in the industry which makes one of the best growth play in BIST-Industrials.**

**New set of rules in steel industry changing the profitability dynamics:** As of 2025, global crude steel production remains stagnant at 1.8 billion tons, with only a 0.9% YoY growth in 4M25—marking the third consecutive year of flat output. Yet, despite this lack of volume growth, profitability trends have sharply diverged across regions. U.S. producers enjoy cash profit spreads of USD 139/ton (238% above historical averages) and Europeans USD 82/ton (8% above average), driven by higher prices and lower input costs. In contrast, China and the Baltic region face sustained negative spreads since 3Q23, with Chinese demand weighed down by real estate weakness and oversupply. This decoupling is no longer cyclical but structural. The share of green steel has risen from 5% in 2010 to 19% in 2024, and high-value-added steels now make up 17.5% of output, up from 10%. These shifts are redefining profitability: even in future up-cycles, traditional producers will struggle to regain margins. Going forward, only producers of premium, sustainable, and specialized steel will consistently outperform—the era of synchronized global steel cycles is over.

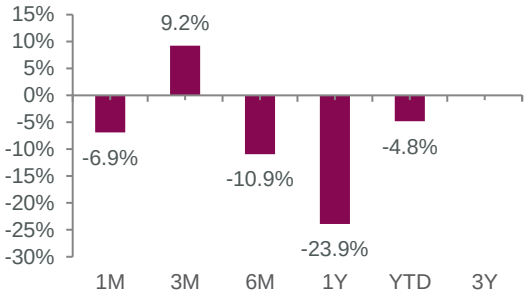
**Operational earnings growth has been accelerating:** Kocaer Steel, its recent modernization and capacity investments aligned with the global shift toward value-added and sustainable steel, has started a strong year with 1Q's EBITDA/ton improved from USD48 to USD120 with a 20% volume growth. With accelerating orders in such rising prices in the West, the company is well positioned to enjoy this trend while its main raw material- billet – prices are highly depressed. Accordingly, we calculate the EBITDA/ton to improve towards USD140 as of 2025, implying a 44% YoY EBITDA growth in USD-terms. With strengthened balance sheet with a forecasted 0.4x net debt/EBITDA level by the year-end and favourable financing terms on the advantages of being an exporter with hard currency revenue stream, the bottom-line is also forecasted to reach USD44.3mn on diminishing FX-losses.

**Growth play of the steel industry in BIST-Universe:** Based on 2025 forecasts, the stock trades at 6.8x EV/EBITDA, suggesting a 27% discount to its global peers. On top of Kocaer Steel's unique operational earnings momentum in the industry, its green steel transformation vision makes the company highly unique in BIST-Universe in terms of growth prospects. Accordingly, we consider the stock as growth steel player of BIST and consider the current valuation unjustified not only with its short-term earnings momentum but also with its future prospects.

Stock data

| | |
|---|---|
| Bloomberg / Reuters | KCAER TI / KCAER.IS |
| Mcap (US$mn) | 605 |
| EV (US$mn) | 665.5 |
| Avg. Trd. Vol. (US$mn) | 5.5 |
| Free float | 24% |

Relative Performance to BIST100




| Key Data (TRYmn) | 2024 | R. 2024 | 2025E | R. 2025 | 2026E |
|---|---|---|---|---|---|
| Revenues | 19,235 | 24,621 | 24,933 | 29,421 | 31,087 |
| *Growth* | *-13%* | | *1%* | | *6%* |
| EBITDA | 2,036 | 2,606 | 3,775 | 4,455 | 5,428 |
| *Growth* | *-36%* | | *45%* | | *22%* |
| Net Profit | 83 | 106 | 1,932 | 2,279 | 3,451 |
| *Growth* | *-95%* | | *1720%* | | *51%* |
| P/E (x) | 16.5 | | 12.3 | | 6.9 |
| EV/EBITDA (x) | 5.1 | | 6.8 | | 4.3 |
| P/BV (x) | 2.9 | | 1.8 | | 1.3 |
| FCF yield (%) | 9.9% | | 7.8% | | 8.3% |
| Div. yield (%) | 1.1% | | 0.3% | | 2.2% |

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**Figure 1 – Summary financials & key metrics (TRYmn)**

| Income Statement (TLmn) | 2023 | 2024 | Restated 2024 | 2025E | Restated 2025E | 2026E |
|---|---|---|---|---|---|---|
| **Revenues** | **22,219** | **19,235** | **24,621** | **24,933** | **29,421** | **31,087** |
| **Gross Profit** | **4,269** | **3,056** | **3,911** | **5,226** | **6,166** | **7,079** |
| **EBITDA** | **3,206** | **2,036** | **2,606** | **3,775** | **4,455** | **5,428** |
| Depreciation | 319 | 353 | 451 | 507 | 598 | 712 |
| **EBIT** | **2,612** | **1,181** | **1,511** | **3,367** | **3,973** | **5,001** |
| Net other income | -275 | -503 | -644 | 99 | 116 | 285 |
| Income from investing activities | 626 | 456 | 583 | 369 | 0 | 444 |
| Net financial income | -1,212 | -1,337 | -1,711 | -1,182 | -1,395 | -847 |
| Profit from associates | 0 | **0** | 0 | 0 | 0 | 0 |
| **PBT** | **2,026** | **299** | **-844** | **2,554** | **3,014** | **4,598** |
| Taxes Paid | -321 | -216 | -277 | -623 | -735 | -1,147 |
| Minority Interest | 1 | 0 | 0 | 0 | 0 | 0 |
| **Net Profit/(Loss)** | **1,706** | **83** | **106** | **1,932** | **2,279** | **3,451** |
| **Balance Sheet (TLmn)** | **2023** | **2024** | **Restated 2024** | **2025E** | **Restated 2025E** | **2026E** |
| **Current assets** | **8,896** | **11,291** | **14,453** | **11,850** | **13,983** | **16,758** |
| Cash equivalents | 1,956 | 3,383 | 4,331 | 2,434 | 2,872 | 5,136 |
| Trade receivables | 1,812 | 3,497 | 4,476 | 4,216 | 4,975 | 5,256 |
| Inventories | 4,131 | 3,299 | 4,223 | 3,978 | 4,694 | 4,960 |
| Other current assets | 997 | 1,112 | 1,423 | 1,223 | 1,443 | 1,406 |
| **Non-current assets** | **8,516** | **10,494** | **13,433** | **12,557** | **14,817** | **14,348** |
| Tangibles | 7,712 | 9,584 | 12,267 | 11,467 | 13,531 | 13,095 |
| Intangibles | 10 | 8 | 10 | 10 | 11 | 11 |
| Other non-current assets | 794 | 903 | 1,156 | 1,080 | 1,274 | 1,242 |
| **Total assets** | **17,412** | **21,786** | **25,416** | **24,406** | **28,487** | **31,106** |
| **Current liabilities** | **6,192** | **8,912** | **11,408** | **9,020** | **10,643** | **11,129** |
| Short-term loans | 3,261 | 3,470 | 4,442 | 2,811 | 3,317 | 3,622 |
| Trade payables | 1,784 | 4,755 | 6,086 | 5,387 | 6,357 | 6,562 |
| Other current liabilities | 1,147 | 687 | 879 | 822 | 970 | 945 |
| **Non-current liabilities** | **1,662** | **2,422** | **3,101** | **2,160** | **2,548** | **2,096** |
| Long-term financial loans | 1,147 | 1,676 | 2,146 | 1,267 | 1,495 | 1,070 |
| Other non-current liabilities | 515 | 746 | 955 | 892 | 1,053 | 1,026 |
| Minority Interest | 9 | 15 | 19 | 23 | 28 | 38 |
| **Shareholders' Equity** | **9,548** | **10,436** | **10,907** | **13,204** | **15,295** | **17,843** |
| **Total liabilities and equity** | **17,412** | **21,786** | **25,416** | **24,406** | **28,487** | **31,106** |
| **Key metrics** | **2023** | **2024** | **Restated 2024** | **2025E** | **Restated 2025E** | **2026E** |
| **Growth** | | | | | | |
| Revenue growth | 8% | -13% | | 1% | | 6% |
| EBITDA growth | 35% | -36% | | 34% | | 15% |
| Net income growth | 26% | -95% | | 1720% | | 22% |
| **Profitability** | | | | | | |
| Gross Margin | 16.0% | 15.9% | 15.9% | 21.0% | 21.0% | 22.8% |
| EBITDA margin | 14.0% | 10.6% | 10.6% | 15.1% | 15.1% | 17.5% |
| Net margin | 7.8% | 0.4% | 0.4% | 7.7% | 7.7% | 11.1% |
| Return on assets (ROA) | 17.6% | 0.4% | 0.4% | 7.8% | 7.8% | 12.3% |
| Return on equity (ROE) | 32.7% | 0.8% | 0.8% | 16.0% | 16.0% | 22.3% |
| Return on cap. emp. (ROCE) | 32.9% | 0.7% | 0.7% | 13.7% | 13.7% | 19.9% |
| **Leverage** | | | | | | |
| Net Debt | 2,452 | 1,763 | 2,257 | 1,644 | 1,940 | -445 |
| Net debt / Equity | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.0 |
| Net debt / EBITDA | 0.8 | 0.9 | 0.9 | 0.4 | 0.4 | -0.1 |
| EBIT Interest coverage | 7.1 | 3.0 | 3.0 | 7.7 | 7.7 | 10.4 |
| **Efficiency** | | | | | | |
| Total asset turnover | 1.9 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 |
| Equity turnover | 3.4 | 1.8 | 2.3 | 1.9 | 1.9 | 1.7 |
| WC/Sales | -1.5% | -0.8% | -0.8% | -0.9% | -0.9% | -0.9% |
| Opex/Sales | 2.8% | 9.7% | 9.7% | 7.5% | 7.5% | 6.7% |
| **Cash Flow (TLmn)** | **2023** | **2024** | **Restated 2024** | **2025E** | **Restated 2025** | **2026E** |
| EBITDA | 3,206 | 2,036 | 2,606 | 3,775 | 4,455 | 5,428 |
| Change in working capital | -909 | 1,147 | 1,469 | -365 | -467 | -426 |
| Taxes | -653 | -295 | -378 | -623 | -797 | -1,147 |
| Capital Expenditures | -614 | -316 | -405 | -511 | -654 | -1,591 |
| Adjustment | -95 | -1,952 | -2,499 | -195 | -249 | -32 |
| FCFF | 935 | 620 | 794 | 2,082 | 2,666 | 2,233 |

| QNB Invest vs Consensus | 2025F | | | 2026F | | |
|---|---|---|---|---|---|---|
| | Deviation | Estimate | Cons. | Deviation | Estimate | Cons. |
| Revenues | - | 24,933 | - | - | 31,087 | - |
| EBITDA | - | 3,775 | - | - | 5,428 | - |
| Net Income | - | 1,932 | - | - | 3,451 | - |

*Source: QNBI Calculations*

## INVESTMENT THEME

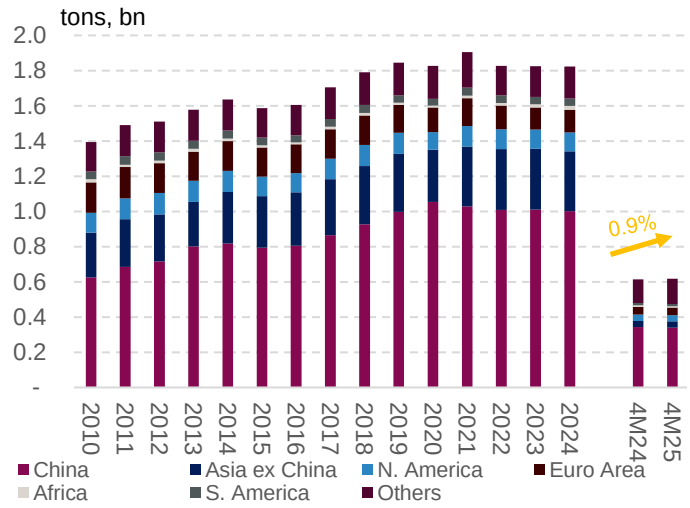
**We reiterate our Outperform rating on Kocaer Steel, with a 12-month target price of TRY 21.50/share, implying 73% upside potential (Previous TP: TRY13.92/shr). As the global steel industry transitions from a volume-led, China-driven growth model to a more fragmented landscape defined by regional price divergence, green steel demand, and specification-based differentiation, Kocaer Steel stands out as a next-generation steel exporter uniquely positioned at the intersection of these trends. Following its nearly USD75mn post-IPO investment cycle—which expanded capacity, modernized production lines, and integrated green energy—Kocaer has evolved into a high-margin, FX-based, and value-added manufacturing platform, with 1Q25 sales up 20.5% YoY, and the share of high-value-added products reaching a record 49% while EBITDA/ton recovered from USD48 in 4Q24 to USD120 in 1Q25 and is expected to reach USD 140 for the full year, with full-year EBITDA projected to grow 44% YoY to USD 90mn. This growth is supported by rising profile-billet spreads (USD 253/ton vs. USD 182 historic avg.), strong steel prices in its exposed Western markets, diminishing negative effect of inventory revaluation on inflation accounting and improving product mix. Net income is forecasted to rise from USD 2.5mn in 2024 to USD 44mn in 2025, driven by declining FX losses, higher margin realization, and easing inflation accounting effects along with rising operational earnings. Beyond the near term, Kocaer's strategic roadmap includes a USD 750mn capex plan through 2030, aimed at building a 1.3mt rolling capacity, 1.0mt EAF-based green steel mill, and 240MW of solar-geothermal capacity—positioning the company as a regional leader in sustainable, premium-grade steel. Despite this compelling growth and profitability profile, Kocaer trades at just 4.3x EV/EBITDA and 6.9x P/E on 2026F earnings—representing an average of 38% discount to rolling mill based global steel peers. In our view, Kocaer Steel is not just a cyclical rebound play, but a structurally differentiated compounder in a sector undergoing one of the most significant transitions in decades and we consider the company as a growth play in Türkiye's steel universe with its solid growth prospects aligned with the global steel industry evolution.**

**Global Steel Outlook: From Pandemic Recovery to Structural Transition:** Following the pandemic-induced downturn, global steel production rebounded sharply in 2021, registering a 4.2% year-on-year increase and reaching an all-time high. However, this upward trend was short-lived. By 2022, output had reverted to pre-pandemic levels, and in the subsequent years, it remained largely stagnant. In 2024, global crude steel production stood at approximately 1.8 billion tons—essentially flat from the previous year—marking the third consecutive year of stagnation. In the decade preceding the pandemic, the global steel market experienced robust growth, with annual demand rising by an average of 4.4%. This expansion was overwhelmingly driven by China, which contributed over 50% of global output. China's domestic demand surged at an average annual rate of 5.8%, fueled by rapid urbanization, industrialization, and—most critically—a booming real estate sector, which became the backbone of steel consumption. However, in recent years, China's real estate market has faced severe distress. The financial troubles of major developers such as Evergrande and Country Garden have disrupted housing construction—the primary consumer of long steel products. Between 2021 and 2024, real estate investment in China declined by roughly 15–20%, while the total floor area under construction fell by over 25%. This led to a sharp reduction in long steel consumption, particularly for rebar and structural steel, which are estimated to have dropped by around 12% from peak levels. Outside China, some regions continue to exhibit strong momentum. India has emerged as a key growth engine, increasing its crude steel output from approximately 100 million tons in 2020 to over 149 million tons in 2024—representing a CAGR of 10.5%. However, this growth has not been sufficient to compensate for the slowdown in China. As a result, neither global market growth nor price dynamics have managed to offset the weight of China's contracting demand.

According to the latest data, global crude steel production in the first four months of 2025 (4M25) reached approximately 622.7 million metric tons, a modest 0.9% increase year-on-year. The growth was largely driven by Asia—particularly India again, which saw another 7.8% rise to 51.2 million metric tons, up from 47.5 million in 4M24. This was supported by robust demand from the infrastructure and automotive sectors, as well as government initiatives to shield domestic producers. Meanwhile, China's output remained stable, growing only 0.3% YoY to 343.7 million metric tons. In contrast, the EU and Japan recorded declines of 2.7% and 2.9%, respectively. These figures underscore that Asia—driven by India—has become the primary contributor to global output growth. Compared to first 4-month figures, full-year expectations for 2025 are still encouraging, with projected growth of 1.8%. As with prior years, the ultimate trajectory will likely hinge on developments in China. The stimulus measures launched by the Chinese central government at the end of 2024—including credit easing and incentives for home purchases—initially sparked optimism in the market. Regional prices responded positively, rising approximately 8% in early 2025. However, the persistent weakness in home prices and a continued decline in transaction volumes—down 4.0% YoY as of April 2025, following a 17.6% drop in 2024—undermined hopes for a sustained recovery. Current estimates suggest there are 65–90 million vacant housing units in China, representing 20–30% of the total housing stock. Meanwhile, household debt/GDP has climbed from 40% two decades

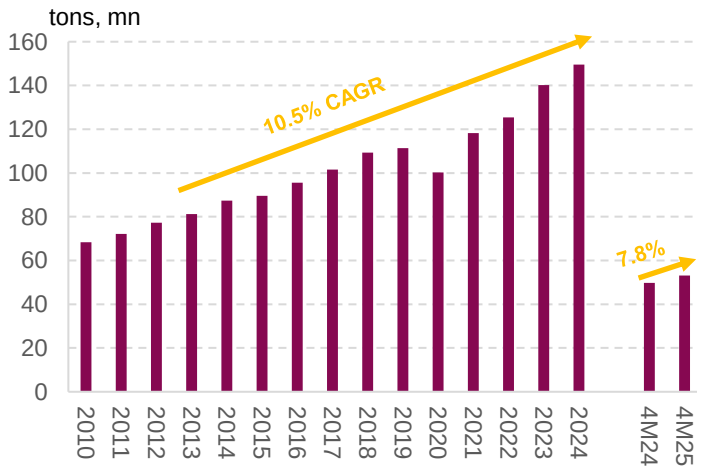
ago to over 60% today, while house occupancy and homeownership rates stand at approximately 80% and 90%, respectively. These indicators suggest that expecting a domestic demand-led revival in real estate is overly optimistic. The only potentially transformative scenario would involve local governments—under central direction—purchasing unsold housing stock and offering it to citizens under highly favorable terms, particularly as part of urban renewal projects. However, the actual implementation rate of this policy remains low. A more feasible, albeit financially burdensome, route would require a substantial inflow of foreign capital—an outcome that seems unlikely under current conditions.

**Figure 2– Global Steel Production Figures (bn tonnes)**




*Source: World Steel Association, QNBI Calculations*

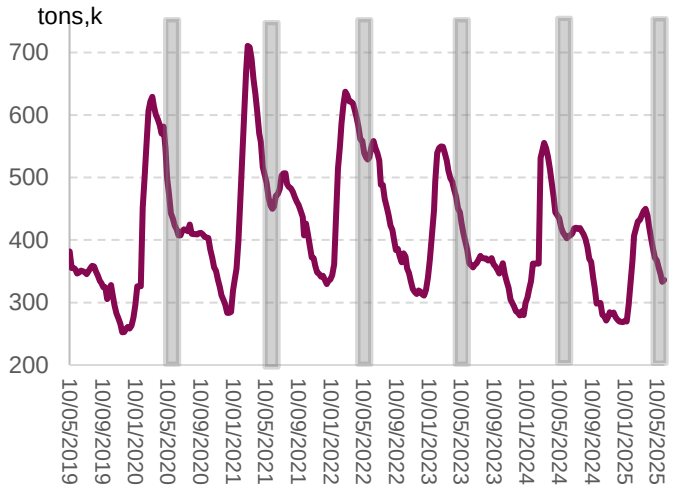
**Figure 3– India Steel Production (mn tonnes)**




*Source: World Steel Association, QNBI Calculations*

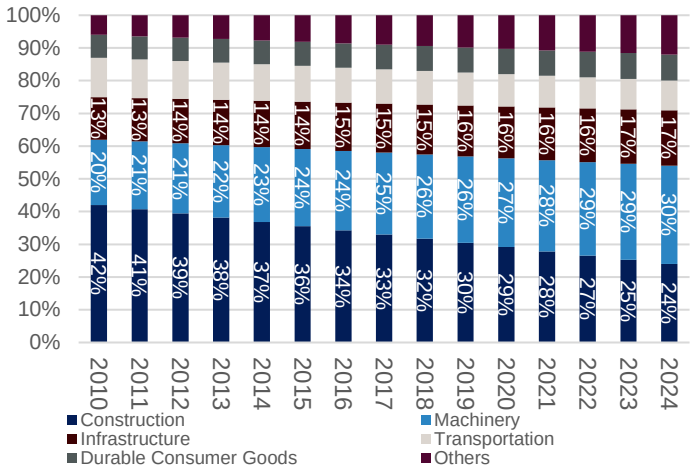
Despite these structural headwinds, there are short-term dynamics offering temporary support. Notably, the tariffs recently announced by President Trump have led to a rapid drawdown in Chinese port inventories. Our calculations indicate that weekly steel stockpiles at key ports—accounting for nearly 45% of national inventory in the ports—have declined by 23% since the end of Q1 2025, and are now 15% below their level in the same period last year. This inventory drawdown appears driven by rising trade volumes in anticipation of potential protectionist measures. Despite ongoing legal challenges in the U.S., the 90-day tariff deferral window has kept export activity elevated, suggesting further declines in port inventories may continue in the short term. Looking beyond short-term volatility, the long-term outlook for the steel sector appears increasingly tied to structural shifts in demand. Between 2010 and 2024, the share of China's steel demand from construction fell from 42% to 24%, while the share from machinery rose from 20% to 30%, and infrastructure increased from 13% to 17%. This transformation is reinforced by strong fiscal policies, such as the Chinese government's 2024 launch of a 1 trillion yuan (USD140 billion) sovereign bond program aimed at funding key infrastructure projects. China's 2025 growth target of approximately 5% signals a strategic pivot toward innovation-driven, high-quality development. With strong government backing for industrial upgrades and a global shift toward automation and reindustrialization, demand from the machinery and infrastructure sectors is expected to expand steadily. This evolving demand landscape suggests that China will continue to play a central role in the global steel market—not through speculative real estate, but through more sustainable and productivity-enhancing sectors.

**Figure 4– China: Total Steel Inventory Level in Specific Ports**




*Source: Bloomberg, QNBI Calculations*

**Figure 5– China: Sectoral Steel Consumption Breakdown**




*Source: Bloomberg, World Steel Association, QNBI Calculations*

While we remain pessimistic about a return to the pre-pandemic growth trajectory—especially given the persistent weakness in China's real estate sector—we believe that global steel prices are no longer solely dependent on this one driver. In fact, growing regional divergences, which were rare in the past, now clearly signal a shift into a new market era. Year-to-date, U.S. steel prices have risen by 38%, and European prices by roughly 16%. In contrast, prices in Türkiye, tied to Baltic and Chinese benchmarks, have remained flat. This decoupling is not merely the result of protectionist measures—which certainly accelerated post-pandemic—but more importantly, a reflection of structural changes in global steel demand. Between 2010 and 2024, the share of flat steel products rose from 60% to nearly 64%, while long products declined from 40% to 36%, indicating a shift away from commodity-grade construction steel. High-value-added steel products—such as advanced automotive grades, corrosion-resistant alloys, and precision-engineered profiles—increased their share from 10% to nearly 17.5%. Moreover, the share of sustainable or "green" steel rose from 5% to almost 19%, driven by ESG mandates and broader adoption of electric arc furnace (EAF) technology. These trends suggest that specification-driven, environmentally sustainable steel is becoming the key driver of regional price differences. Western markets, in particular, are seeing stronger demand for premium-grade steel products with higher margins, reinforcing the structural divergence in global pricing dynamics.

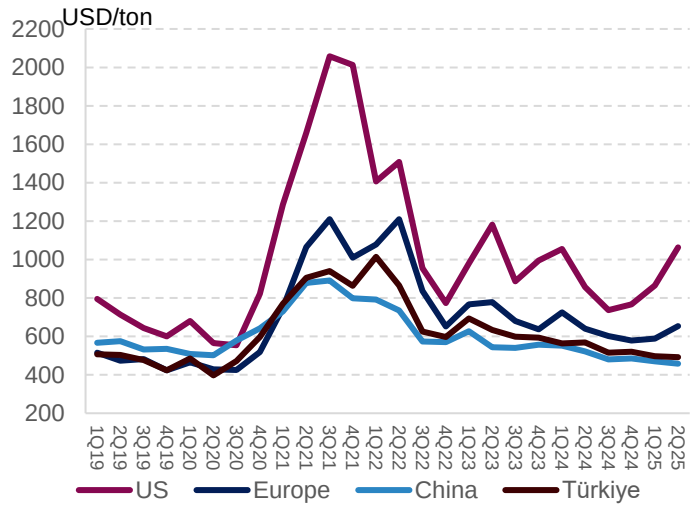
In terms of profitability, the steel sector globally, regardless of region, completed 2021 with record profitability following the pandemic, driven by strong post-pandemic demand and rising freight rates due to supply chain disruptions, which in turn reduced trade volumes. On average, steel prices rose by 110% compared to pre-pandemic levels, while the global steel sector peer group's total EBITDA reached USD 108 billion, reflecting a 177% increase year-on-year, a 119% increase compared to pre-pandemic levels, and a level 55% higher than the peak of the previous up-cycle in 2018. This strong growth was supported by cash profit spreads that averaged 224% above historical averages. Although 2022 witnessed a decline from peak levels in cash profit spreads, they still remained on average 22% above historical levels. However, 2023 marked the end of the up-cycle and, especially in the second half, a clear transition into a down-cycle, with negative cash spreads in China becoming a sustained trend. Looking at 2025 YTD profitability levels, we observe a distinct positive divergence in the US and Europe. In addition to steel prices being higher by 38% and 16% respectively for the US and Europe, declines in both energy prices and iron ore and scrap prices have driven unit steelmaking costs down by an average of 8% for both BoF and EAF. Consequently, we observe a recovery in cash profit spreads averaging USD 451/ton in the US and USD 240/ton in Europe, which corresponds to levels 90% and 52% above historical averages, respectively.

Despite weak demand during the first four months of the year, the observed improvement in spreads can be interpreted as a signal of an impending up-cycle in certain regions, following a prolonged downturn. However, it is also clear that the synchronized global steel cycles seen prior to the onset of trade wars in 2018–2019 have not yet returned, and the persistent lack of recovery in steel prices in China remains the primary driver of the ongoing down-cycle. While cost declines have led to a limited recovery in spreads, they are still significantly below historical averages. The Baltic region mirrors the situation in China. Due to the quota system in Europe, regional producers face limited export opportunities, and despite protectionist measures, high import volumes from China into the region continue, exerting downward pressure

on prices. Nevertheless, signs such as declining inventories in the ports and the Chinese government's steel production cuts are developments parallel to those seen at the end of the previous down-cycle. The last time the steelmaking cash spread was this far below historical averages—or even negative, as it has been since 3Q23—was during the 2Q15–2Q17 period, which was followed by a 35% surge in steel prices over the next year and an improvement in cash spreads to USD 165/ton compared to the current level of negative USD 8/ton. Although the current down-cycle has already lasted two quarters longer than the previous one, recent news flows provide hope for a healthy recovery in the upcoming period.

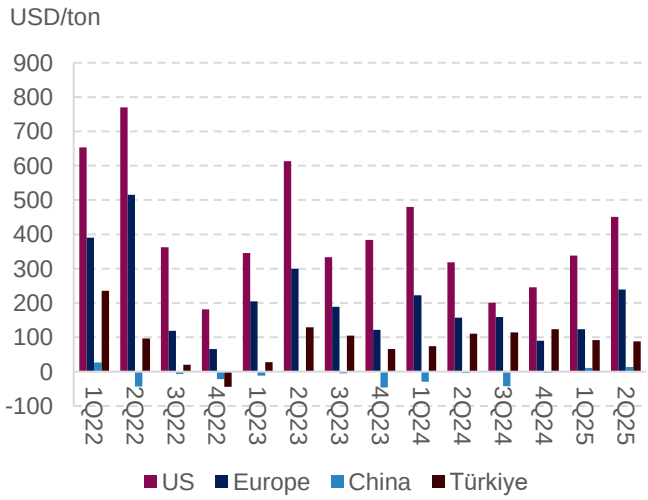
In assessing the potential for a cycle reversal, we must temper optimism given the current divergence in profitability dynamics due to product differentiation and regional discrepancies that we are witnessing for the first time. However, considering the 35% increase observed during the previous recovery phase, the potential for profitability spreads in the Baltic region and China to approach mid-cycle levels appears realistic. Catalysts that could further strengthen this outlook in the short term include a potential surge in regional steel demand following the resolution of the Russia-Ukraine conflict. When we also factor in the reconstruction of Syria, Türkiye's steel prices—especially rebar—could outperform regional benchmarks. However, in the long term, sustaining this momentum may be limited if scrap prices, which have already fallen approximately 18% since the beginning of the month, continue to decline amid increasing supply. While this could indicate a positive period of profitability for EAFs and rolling mills in Türkiye, it may also restrict the BoF cycle's recovery.

**Figure 6– Global Benchmark Steel Prices (USD/ton)**




*Source: Bloomberg, QNBI Calculations*

**Figure 7– Global Benchmark Cash Spreads (USD/ton)**

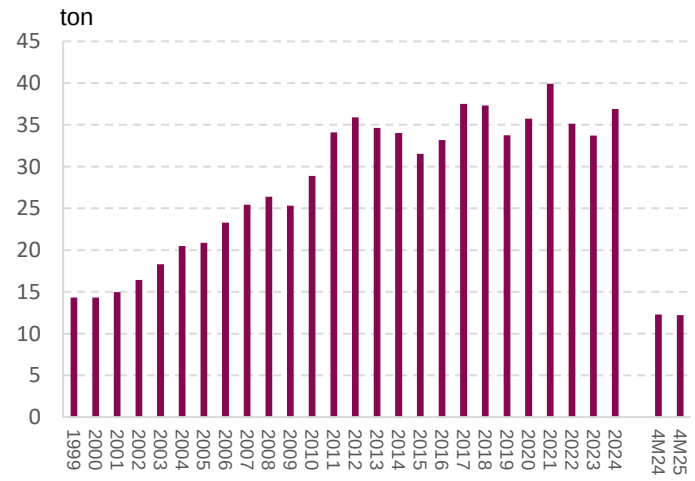



*Source: Bloomberg, QNBI Calculations*

**Türkiye**: **Differentiation in the profitability dynamics becoming apparent:** In parallel with the global trend, the Turkish steel industry experienced a record-breaking year in 2021 following the pandemic, with total steel production reaching 41.4 million tons, marking a 13% annual increase. Alongside strong domestic demand, overall Türkiye also showed a similar increase; more importantly, due to logistical challenges, export markets expanded, and Türkiye closed the year with a record of approximately 20 million tons in exports, representing a 20% year-on-year growth. While 2022 exhibited a relatively more balanced momentum, 2023 witnessed a strong surge in demand—contrary to global patterns—despite production levels remaining flat due to the unfortunate earthquake in the southeastern region, resulting in a 17% year-on-year growth and reaching record levels. In 2024, demand growth continued, albeit limited, allowing the industry to maintain record levels. Despite this resilient stance in terms of tonnage—which is a trend only observed in a few countries such as India—we cannot say the same for profitability. The main reasons are the highly competitive domestic market and the negative impact of rising personnel and energy costs felt in the industrial sector in 2024. When examining the intense domestic competition in more detail, we can identify the discounted entry of Russian steel—subject to sanctions in the Western countries due to the Russia-Ukraine war—into the Turkish market as the main factor creating price pressure. Meanwhile, the relatively weak demand in China, despite high production levels, also played a role in increasing competition in the domestic market through Chinese steel imports. Although the reconstruction efforts following the 2023 earthquake and strong domestic demand somewhat mitigated these negative impacts, the stagnation in demand growth

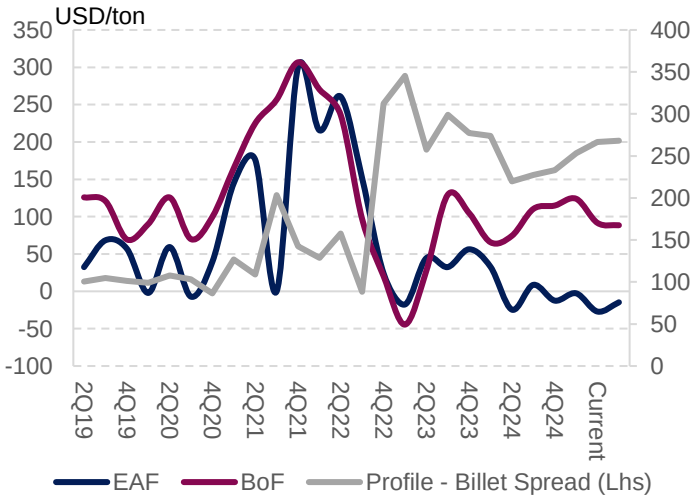
in 2024 intensified the pressure, and steel prices in Türkiye, following an average 13% drop in 2023, declined by an additional 9% by year-end. Looking at profitability spreads, BOFs, which are cost-advantaged, stood out positively thanks to a 19% drop in iron ore prices and a 39% drop in coking coal prices, whereas EAFs spent much of the year operating at negative spread levels. In this context, the most positively differentiated players were value-added export-oriented rolling mills, such as Kocaer Steel. The low pricing of semi-finished products in the domestic market—driven by alternative Russian and Chinese steel—positioned these rolling mills more competitively in export markets. Although this development may not be seen as entirely positive for the sector—since rolling mills preferred imported over locally produced semi-finished products—it led to divergences in profitability dynamics among industry players, unlike typical global industry cycles. Domestic producers struggling with competition have accordingly filed petitions with authorities, and in the past 2–3 years, Türkiye has implemented several protectionist measures to shield its steel industry from unfair import competition. Notably, anti-dumping duties were imposed on hot-rolled flat steel products from China, India, Russia, and Japan, with rates ranging from 6.1% to 43.3%, following evidence of dumping and injury to domestic producers. Additional investigations targeted imports of cold-rolled, galvanized, and pre-painted flat steel from Egypt and China. Türkiye also tightened import surveillance and expanded safeguard measures, with anti-dumping duties now covering 126 products from 23 countries. These actions reflect a strategic effort to protect domestic steel producers from global overcapacity, low-price imports, and foreign trade barriers. In light of these developments, when we evaluate the current outlook, we observe that the pressure on semi-finished product prices in the domestic market still persists. Although prices have recovered by around 4.0% from their lowest levels since the beginning of the year, they still remain on average 4.6% below year-end levels. Profitability spreads for BOFs, despite lower raw material costs, are still below end-2024 levels due to rising energy prices. For EAFs, the outlook appears slightly better, thanks to the sharp drop in scrap prices. On the other hand, the strong momentum in sales of rolling mill products is clearly visible both in Türkiye's overall steel export growth and in the spreads between semi-finished and finished products. In other words, despite being a challenging period, Türkiye's steel exports have increased by 3.6% as of 4M25, on top of the 8.7% growth recorded last year. In terms of profitability, the benchmark profile-billet spread, which can be considered a proxy for the profitability of a profile rolling mill such as Kocaer Steel, is currently at USD 253/ton—approximately 40% above its historical average of USD 182/ton—and we believe this spread will likely maintain its elevated level in a global steel cycle scenario.

**Figure 8– Türkiye: Steel Production (tons,mn)**




*Source: Bloomberg, TCUD, QNBI Calculations*

**Figure 9– Türkiye: Calculated Cash Spreads (USD/ton)**

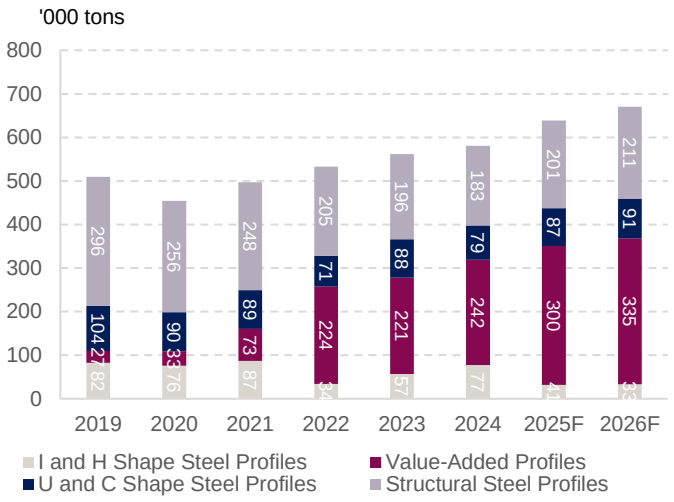



*Source: Bloomberg, QNBI Calculations*

**Kocaer Steel: Time to Cash In The Investments:** As one of Türkiye's leading steel profile producers, with exports comprising around 80% of total sales (with nearly 100% of sales being FX-denominated), Kocaer Steel completed its 2024 revamp investment at the Aliağa A1 factory, resulting in increased production capacity of value-added products that new product launches have already been initiated. Additionally, the capacity of the Steel Service Center, which transforms steel profiles into final products based on customer-specific demands, was expanded by 50%, reaching an annual capacity of 180,000 tons. With the investments completed post-IPO in its rolling mills, the company has not only increased tonnage but also achieved its near-term strategic goal of boosting production in high value-added products—its core focus—and is now in a position to reap the benefits of these investments. The company also made significant strides in energy by launching a 24 MW geothermal power plant project in Aydın Kuyucak through its subsidiary, Kocaer Energy. Upon completion, the entire electricity need of the company is expected to be met through renewable sources, with the aim of becoming carbon neutral. In the long term, Kocaer Steel unveiled its ambitious 2030 growth strategy, outlining its vision aligned with the green steel revolution, including: 1) expanding profile production capacity from 800k tons to 1.3 million tons by 2030 through the construction of a steel mill with 1 million tons of capacity; 2) achieving 240 MW in electricity generation through solar and geothermal investments; and 3) establishing 5 new distribution and service steel centers, while reiterating a total investment plan of USD 750 million, with 45% allocated to steel-related investments and 55% to energy.

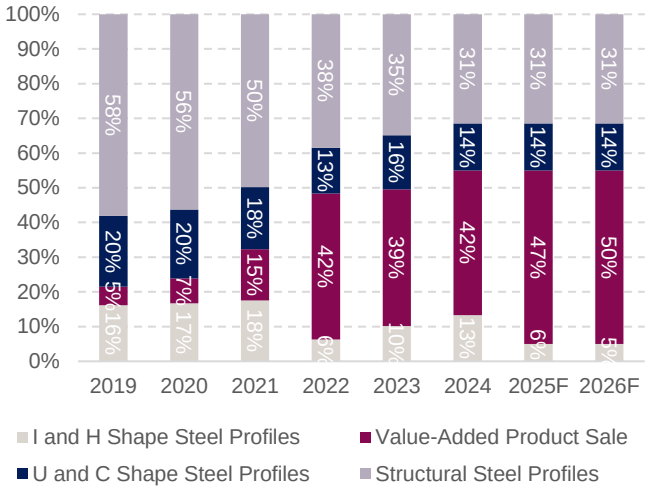
Alongside the ongoing completion of capacity and modernization investments, Kocaer Steel has successfully increased the share of value-added products in its sales mix from 7.2% in 2020 to 39.4% in 2023, while achieving a 6.6% CAGR in total sales volume, outperforming the domestic industry. In 2024, despite modernization work at the A1 factory in the first half, the company managed to maintain its sales tonnage, and the impact of completed investments became evident in the second half with an 8.9% YoY rise in sales volume and a concurrent increase in the share of value-added products from 31.2% to 44.9%. As a result, the company ended 2024 with a 3.4% YoY volume growth, while the share of value-added products rose from 39.4% in 2023 to 41.6% in 2024. Entering 2025 with strong momentum, the company's sales volume increased by 20.5%, and the share of value-added products reached a record-high 49.0%. For the upcoming period, we forecast that this strong trend will continue throughout the year, with total annual sales volume projected to grow 10% YoY, reaching an all-time high of around 640k tons for the first time in the company's history. Alongside rising shipments to profitable export markets, we also forecast that the share of value-added products in the total mix will hover around 45.0-50.0% for the year, highlighting that the company's customer-specific production model provides a significant competitive advantage amid challenges in pricing and competition in the global steel industry. Although the company has a rolling mill capacity of 800k tons, we had observed its capacity utilization rate ranging between 62% and 73% over the past five years. One of the main reasons for this is that, by nature of the business, the more variety a steel rolling mill produces—as in Kocaer Steel's case, with its strong capabilities in customized production—the more losses occur in production time. However, the company's unfinished investments had also formed a natural barrier to increasing tonnage, particularly in high value-added product manufacturing. With the completion of the A1 factory modernization and the capacity increase at the Steel Service Center in 2024, this barrier has been removed, and we find the likelihood of the strong volume growth expected in 2025 continuing in subsequent years to be quite high. Nevertheless, for the sake of conservatism, we maintain a 3% annual volume growth assumption in the long-run and keep the share of value-added products stable at around 50%. The company's 2030 growth vision investments—which include increasing rolling mill capacity from 800k tons to 1.3 million tons—have not yet begun and are therefore excluded from our model and calculations, but they have the potential to take these projections to significantly higher levels.

**Figure 10– Kocaer Steel: Sales Volume ('000 tons)**




*Source: Bloomberg, QNBI Calculations*

**Figure 11– Kocaer Steel: Sales Mix (%)**



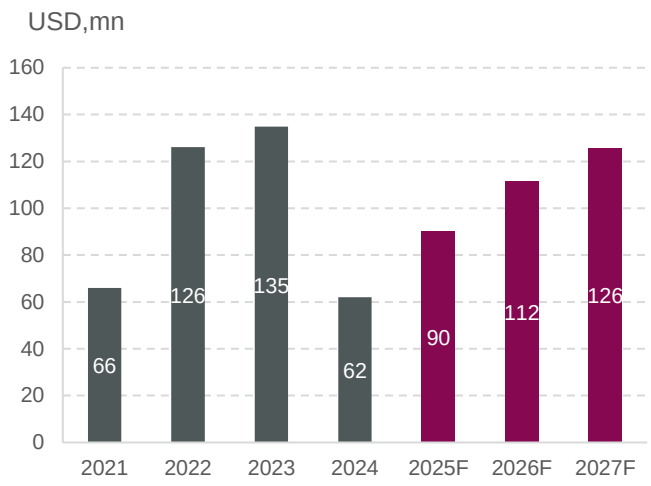

*Source: Bloomberg, QNBI Calculations*

**EBITDA/ton to have recovered from 4Q24 low as of 1Q25:** From a profitability standpoint, the most significant indicator for Kocaer Steel is the spread between product prices and semi-finished input prices. While the most trackable indicator for these spreads is the benchmark spread between profile and billet prices, considering the company has a portfolio of over 12,000 different products, this indicator alone cannot be deemed a comprehensive proxy for operational performance. For instance, as the share of value-added products—those with estimated spreads of USD 300/ton and above—increased from 5.4% in 2019 to above 40%, the company has gradually become less vulnerable to global steel cycles, and its EBITDA/ton normalized from around USD40 to an average of USD180. During this period, the company also reached a record level of USD 225/ton.

In 2024, due to the company's inventory carrying period exceeding three months, we began to observe the effects of inventory revaluation associated with inflation accounting methodology. We estimate this impact to have been a negative effect of approximately USD 18/ton. Accordingly, the company's EBITDA/ton declined to USD103, compared to the average of around USD180 over the previous three years. This figure also reflects the impact of a delayed delivery in one of the company's value-added export product categories, which caused EBITDA/ton in the final quarter to drop. As of 1Q25, with the delivery delay no longer a factor, EBITDA/ton quickly recovered to USD120. Despite ongoing high inflation and relatively high labor and energy costs, we estimate that the improving product mix and lower raw material prices may lead to a further recovery in EBITDA/ton to USD132 in 2Q, compared to 1Q. The strong pricing environment in the company's export markets may continue to support pricing power, and with rising spread levels, we plug in EBITDA/ton around USD150 in 2H25, still below historical averages for the sake of conservatism.

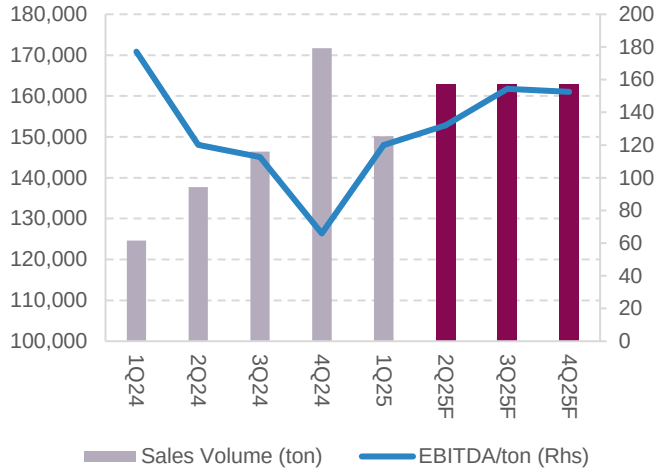
Based on these expectations and our projected 10% volume growth, we forecast that the company's EBITDA will increase by 44% in 2025, reaching approximately USD 90 million. For 2026, using conservative volume growth and value-added product share assumptions, we calculate an additional 25% EBITDA growth, exceeding the already strong growth of 2025. Despite increasing product diversity and a strong presence in export markets, we plug in EBITDA/ton around USD180-185 level in line with its normalized levels over the projection horizon.

**Figure 12– Kocaer Steel: EBITDA Generation (USD,mn)**




Source: QNBI Calculations

**Figure 13– Kocaer Steel: Quarterly EBITDA Generation (USD,mn)**

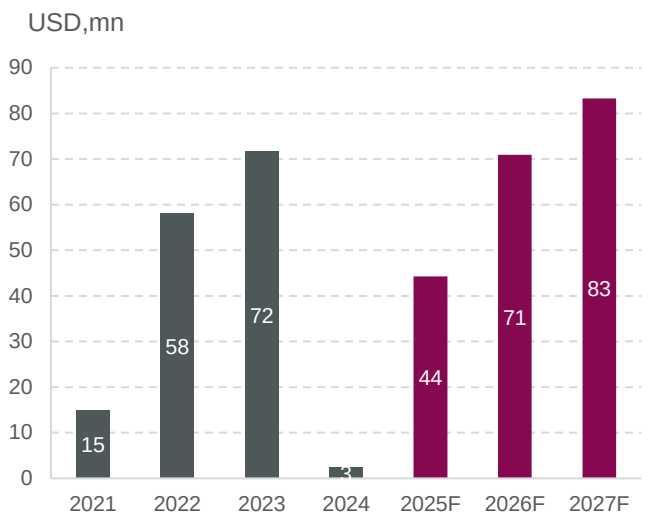



Source: QNBI Calculations

**Bottom-line to be enhanced after depressing 2024 figure:** As seen across the broader BIST universe in 2024, the predictability of Kocaer Steel's net income came under significant pressure due to inflation accounting. In terms of monetary gains/losses, although the company posted USD14.4 million in monetary losses in 9M24, a positive reversal in the final quarter led to full-year monetary gains of USD5 million. However, a deferred tax income revaluation impact of USD5.8 million had a negative effect on the company's effective tax rate, which stood at 72%. Consequently, the company closed 2024 with a limited net income of USD 2.5 million. A more material non-cash impact was related to FX-losses in 2024, due to a short FX-position of USD 49.7 million and EUR 31.9 million, stemming from its working capital structure. This resulted in total FX-losses of USD15.7 million in 2024, despite the existence of a cash flow hedging mechanism that had previously mitigated FX-loss impacts on the bottom line. We believe that the relatively limited effectiveness of this mechanism in 2024 was primarily due to the strength of the Turkish lira against the USD during the year. While our year-forecast for year-end USD/TRY was 42.00 in the beginning of the year, the actual level came in at 35.30, meaning the TRY depreciated by only 17.6% compared to the previously assumed 40%. Given the nature of the mechanism, this positive deviation in the exchange rate may have translated into a more negative FX impact, though any quantification without full information would be misleading.

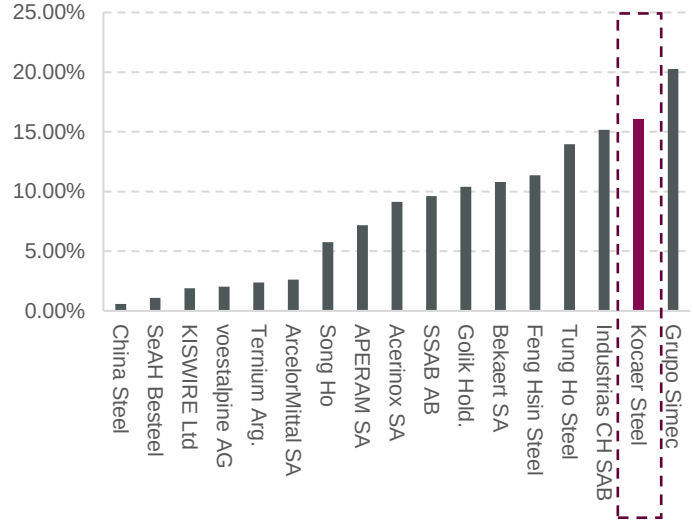
Currently, the outlook for currency volatility is more stable, and the company has already recorded USD 0.8 million in net FX-gains in 1Q25. Nonetheless, we conservatively assume USD2.5 million in FX-losses for the full year. Despite this conservative stance, with our forecast of 44% EBITDA growth for the full year, we estimate the company's net income will rise from USD 2.5 million at the end of 2024 to USD 44.3 million by the end of 2025. This implies a return on equity (ROE) of 16.0%, compared to the current BIST Industrial average of 2.8% and the global peers' average of 6.6%. Based on our 2026 operational forecasts, we calculate an additional 60% net income growth for the following year in USD terms.

**Figure 14– Kocaer Steel: Net Income Generation (USD,mn)**




*Source: QNBI Calculations*

**Figure 15– Global Rolling Mil Universe ROE Performance (%)**




*Source: Bloomberg, QNBI Calculations*

**Green Steel Leadership for a Sustainable Future**: Since its IPO, Kocaer Steel has invested USD 71 million in capital expenditures between 2022 and 2024, significantly modernizing its Aliaga site and enhancing its service capacity. By the end of Q1 2024, the company had completed the revamp of both its Aliağa-A1 and A2 plants, increasing steel profile output and boosting its capabilities in high-value product manufacturing. The capacity of its integrated Steel Service Center was expanded from 120,000 to 180,000 tons per year, supported by new automation and robotics systems. Additionally, rooftop solar installations across three profile plants, the service center, and the galvanizing facility now generate approximately 15 million kWh annually, covering around 33% of the Group's total electricity needs. Together, these investments—including plant modernization, service center expansion, and clean energy initiatives—underscore Kocaer's strategic shift toward boutique, value-added steel production.

Despite undertaking this intense investment cycle amid global steel sector uncertainties and volatility, the company maintained strict balance sheet discipline. Through professional liquidity management, it reduced its net debt from USD 109 million pre-IPO to USD 45 million by the end of 2024. Although net debt rose to USD 61 million in 1Q25—mainly due to working capital needs—this is expected to decline again in the second half of the year as sales accelerate. Accordingly, the company's net debt/EBITDA ratio, already healthy at 0.9x at year-end 2024, is projected to improve further to around 0.4x. In terms of debt maturity structure, only 14.1% of the company's total financial liabilities are composed of long-term borrowings. For working capital financing, the company benefits from its exporter status by securing export loans at a significantly favorable average interest rates, well below prevailing market rates—further supporting its strong financial health. With this advantage, Kocaer Steel stands out positively from many other industrial companies in the BIST universe, especially in the current high global interest rate environment. A clear indicator of this strength is the company's EBIT coverage ratio, which improved from 1.3x in 2021 to 3.0x by the end of 2024. We expect this ratio to improve further to 7.7x by year-end 2025—an exceptional level among BIST industrials—and a key driver of EPS performance.

Kocaer Steel does not have any major bulk capex planned in the short term for its existing operations or near-term targets. This supports the sustainability of its current healthy cash generation and low leverage profile. However, the company is preparing to enter a new investment cycle in the near future. The first phase of this cycle is expected to be led by its energy subsidiary, Kocaer Enerji. Kocaer Enerji, a 99%-owned subsidiary of Kocaer Steel, has launched an ambitious geothermal energy project in the Kuyucak/Horsunlu region of Aydın. After securing a 10,844-hectare license, the company began feasibility studies in mid-2023 for "Kocaer 1," a 24 MW binary-cycle geothermal power plant targeted for commercial operation in early 2026. The Environmental Impact Assessment (EIA) process formally began in May 2025, and while the project site was subsequently revised, the 24 MW capacity plan remains unchanged. The total investment is estimated around USD 84 million- including 24MW hybrid SPP investment - to be financed 70% by debt and 30% by equity. Once operational, the plant is expected to generate around 192 GWh of clean energy annually—enough to power approximately

57,000 homes. It aims not only to meet Kocaer's internal electricity demand—complementing its existing solar capacity—but also to generate additional revenue by selling surplus electricity. This project will enable Kocaer to achieve energy independence, significantly reduce its carbon emissions, and diversify its revenue streams through energy sales starting in 2026. Based on our calculations, the project may generate annual EBITDA of USD18.8 million as of 2026, suggesting a 16% upside risk to our 2026 EBITDA forecast and 9.0% upside risk to our valuation that we do not plug in any contribution and capex regarding the investments for the sake of conservatism.

A more strategically significant initiative is the company's long-term vision outlined in its 2025–2030 roadmap. Looking ahead, Kocaer Steel plans a USD 750 million capital investment program aimed at sustainable growth through 2030. Key initiatives include:

- Construction of a fourth steel profile mill with an additional 500,000 tons/year capacity, raising total profile capacity to 1.3 million tons/year by 2030;
- Development of a green steel meltshop with 1 million tons/year electric arc furnace capacity, aimed at reducing raw material costs by 10–12%, expected to be operational by 2028;
- Expansion in renewable energy, including hybrid solar-geothermal installations equivalent to 240 MW of solar capacity by 2030, in addition to the Phase I geothermal plant (24 MW);
- Global distribution network growth, with the opening of five new service and hub centers across the US, EU, and Gulf regions;
- Sustainability commitments to achieve 100% renewable electricity usage, reduce carbon emissions per unit by 35%, fully neutralize Scope 2 emissions by 2030, and achieve net-zero for Scope 1 & 3 by 2050.

This major capex initiative—centered on production capacity, decarbonization, and international expansion—positions Kocaer Steel as a leading global player in green steel and value-added steel solutions by 2030.

The global shift toward green steel is no longer optional—it is accelerating rapidly, with over 50% of Europe's flat steel production capacity expected to be converted to low-emission technologies by 2030. Despite being one of the top 10 steel-producing countries in the world, Türkiye's green steel readiness remains limited: as of 2024, fewer than 5% of domestic steel mills have announced concrete decarbonization plans, and no large-scale EAF (electric arc furnace) or renewable-integrated production models have yet been operationalized at scale. In this context, Kocaer Steel emerges as a first mover and visionary leader. With its strategic blend of green energy investments (geothermal, solar), value-added production, and vertical integration, the company is uniquely positioned to carry Turkish steel into a decarbonized global economy. Its initiatives are not only environmentally transformative but also of strategic national importance, as global buyers increasingly impose Scope 3 emission disclosures and carbon border adjustments—putting Turkish exporters at direct regulatory and pricing risk unless adaptation accelerates.

While our current projections conservatively exclude the full monetization potential of Kocaer's green transformation (as several major investments are still in ramp-up or permitting phase), we believe this vision supports a valuation far above both current market levels and peer benchmarks. Compared to legacy industrial players in the BIST industrial index and global steel producers, Kocaer Steel justifies a premium multiple—driven by its capital-efficient growth model, superior EBITDA trajectory, and ESG-first positioning. Moreover, the company's strategic orientation enables access to green and sustainability-linked financing, which not only reduces funding costs via preferential interest rates but also enhances financial flexibility. We believe Kocaer Steel is structurally equipped—both financially and operationally—to execute this transformation with resilience, and in doing so, define the future of Turkish steel on the global stage.

## Valuation

We base our valuation on an 50-50 weighting of the results derived from the extrapolation of DCF and multiple valuation methodology, and derive a 12-month target value of USD957mn, implying 73% upside potential.

- Our USD-denominated DCF model is based on a 10.3% WACC and a beta of 1.0x. Meanwhile, we assume a risk-free rate of 7.5% and an equity risk premium of 6.0%.
- We use our USD-based nominal forecasts in our DCF model as the company's inflation accounting included financials are not indicative of its cash generation ability on the indexation and inventory revaluation, as was also the case in 2024 in such a high inflation environment. Accordingly, our forecasts for IFRS figures differ slightly from the figures in our DCF model.
- Our DCF analysis do not include any contribution or capex amount for the company's projected investments in Energy and Green Steel production facilities that the company targets to reach USD401 million EBITDA by the end of 2030 vs. our current forecast of USD139 million.
- Our multiple analysis is based on a 50-50 blend of P/E and the EV/EBITDA multiples. On our 2025 earnings forecasts, Kocaer Steel trades at a P/E of 12.3x and EV/EBITDA of 6.8x suggesting an average 17% discount to its international peers. Based on 2026 prospective earnings, the stock trades at a P/E of 6.9x and an EV/EBITDA of 4.3x, implying 42% and 33% discounts to international peers, respectively. We use 40-60% weightings for 2025 and 2026 on multiple analysis valuation.

**Figure 16 – Valuation Summary**

| Valuation | Weights | USD mn |
|---|---|---|
| DCF | 50% | 1,166 |
| Peers Analysis Implied Value | 50% | 749 |
| 12-Month Target Value (USDmn) | | 957 |
| 12-Month Target Price (USD) | | 0.5 |
| 12-Month Target Price (TRY) | | 21.5 |
| Current Price /shr (TRY) | | 12.45 |
| Upside Potential (%) | | 73% |

*Source: QNBI Estimates*

## Figure 17 – DCF Tables

| USDmn | 2025F | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F | 2032F | 2033F | 2034F | 2035F |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 591 | 641 | 670 | 690 | 710 | 732 | 754 | 776 | 800 | 824 | 848 |
| *Revenue Growth* | *1%* | *8%* | *5%* | *3%* | *3%* | *3%* | *3%* | *3%* | *3%* | *3%* | *3%* |
| EBIT | 77 | 97 | 110 | 113 | 117 | 121 | 124 | 128 | 127 | 141 | 138 |
| **EBITDA** | 89 | 112 | 126 | 130 | 134 | 139 | 143 | 148 | 148 | 163 | 163 |
| *EBITDA Margin* | *15.1%* | *17.5%* | *18.8%* | *18.8%* | *18.9%* | *18.9%* | *19.0%* | *19.1%* | *18.5%* | *19.7%* | *19.2%* |
| Taxes | -19 | -24 | -25 | -26 | -27 | -28 | -29 | -30 | -29 | -32 | -32 |
| Inc./dec. in W/C | -9 | -9 | -6 | -6 | -6 | -6 | -6 | -7 | -7 | -7 | -7 |
| Capex | -12 | -13 | -13 | -15 | -19 | -23 | -24 | -24 | -25 | -25 | -25 |
| **FCF** | **49** | **66** | **82** | **82** | **83** | **81** | **85** | **88** | **87** | **98** | **98** |
| WACC | 10.3% | 10.3% | 10.3% | 10.3% | 10.3% | 10.3% | 10.3% | 10.3% | 10.3% | 10.3% | 10.3% |
| **PV of FCFs** | **550** | | | | | | | | | | |
| Terminal Growth Rate | 3% | | | | | | | | | | |
| Terminal Value | 1386 | | | | | | | | | | |
| **PV of TV** | **517** | | | | | | | | | | |
| Value of Firm | 1068 | | | | | | | | | | |
| Net Debt | 40 | | | | | | | | | | |
| Participations | 0 | | | | | | | | | | |
| **Equity Value** | **1027** | | | | | | | | | | |

*Source: QNBI Estimates*

## Figure 18 – Peer Analysis

| Company Name | Ticker | P/E'25F (X) | P/E'26F (X) | EV/EBITDA'25F (X) | EV/EBITDA'26F (X) |
|---|---|---|---|---|---|
| VOESTALPINE AG | VOE AV Equity | 10.9 | 7.6 | 4.0 | 3.5 |
| TERNIUM SA-SPONSORED ADR | TX US Equity | 7.9 | 6.5 | 4.5 | 3.9 |
| CHINA STEEL CORP | 2002 TT Equity | n.m. | 32.4 | 13.8 | 12.4 |
| SSAB AB-A SHARES | SSABA SS Equity | 9.2 | 8.0 | 3.7 | 3.2 |
| OUTOKUMPU OYJ | OUT1V FH Equity | n.m. | 10.9 | 6.5 | 4.3 |
| ARCELORMITTAL | MT NA Equity | 7.6 | 6.1 | 4.9 | 4.3 |
| KLOECKNER & CO SE | KCO GR Equity | 23.6 | 9.2 | 6.7 | 5.5 |
| APERAM | APAM NA Equity | 15.8 | 7.9 | 7.1 | 5.3 |
| ACERINOX SA | ACX SM Equity | 11.7 | 7.7 | 6.7 | 5.3 |
| BEKAERT NV | BEKB BB Equity | 7.2 | 6.4 | 4.4 | 4.1 |
| HYUNDAI STEEL CO | 004020 KS Equity | 25.8 | 9.4 | 6.3 | 5.3 |
| CHINA STEEL CORP | 2002 TT Equity | n.m. | 32.4 | 13.8 | 12.4 |
| LIUZHOU IRON & STEEL CO -A | 601003 CH Equity | 13.5 | 9.8 | n.a. | n.a. |
| TUNG HO STEEL ENTERPRISE COR | 2006 TT Equity | 11.3 | n.a. | n.a. | n.a. |
| CHUNG HUNG STEEL CORP | 2014 TT Equity | n.m. | 17.2 | 39.1 | 14.8 |
| FENG HSIN STEEL CO LTD | 2015 TT Equity | 15.7 | n.a. | n.a. | n.a. |
| SEAH BESTEEL HOLDINGS CORP | 001430 KS Equity | 12.2 | 8.5 | 7.4 | 6.2 |
| **Median** | | **13.3** | **12.0** | **9.2** | **6.5** |
| Kocaer Steel | | 12.3 | 6.9 | 6.8 | 4.3 |
| **Premium/Discount** | | **-6.9%** | **-42.5%** | **-26.6%** | **-33.3%** |

*Source: Bloomberg, QNBI Estimates*

## QNB Invest Rating System

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

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

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

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

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

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

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

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

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

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

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

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

**N/R.** Not Rated.

**U/R.** Under Review.

## Analyst Certification

The following analysts hereby certify that the views expressed in this research report accurately reflect their own personal views regarding the securities and issuers referred to therein and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report: **Can Alagöz.**

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

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