

# Ford Otosan

28.04.2023

## Review of 1Q23 Financials

**BUY**

**Upside Potential 28%**

### Actual vs Estimates

No surprise in 1Q23 financials. In-line with market call of TL5.52bn and slightly lower than our call of TL5.68bn, Ford Otosan reported TL5.35bn net earnings in 1Q23, up by a massive 91% YoY, driven by robust top-line growth supported by contribution Romanian operations, as well as higher volume growth together with better pricing in Turkey operations. Earthquake taxes (total tax income of TL193mn in 1Q23; 1.84bn current tax expense plus TL2.03bn deferred tax income) limited the superb growth in EBIT reflecting into the bottom-line in 1Q23. Meeting estimates (İs Yat: TL68.79bn, Consensus: TL67.37bn), the Company generated TL66.30bn revenues in 1Q23, up by 138% YoY. In-line with estimates (İs Yat: TL6.53bn; Consensus: TL6.94bn), EBITDA was reported as TL6.72bn in 1Q23, up by 126% YoY.

### Highlights of the Quarter

Massive top-line growth. Ford Otosan's domestic revenues almost tripled to TL15.52bn in 1Q23 driven by 77% volume growth in domestic sales thanks enhanced supply conditions and better pricing. Ford Otosan achieved to increase its domestic market share by 0.5ppt YoY to 10.5% in 1Q23. Export revenues more than doubled to TL50.78bn in 1Q23 due contribution of Romanian operations, 13% export volume growth in Turkey operations and depreciation in TL against €. The share of export revenues in total turnover dropped to 77% in 1Q23 from 81% in 1Q22 thanks to robust performance of domestic sales.

Slight improvement in EBITDA/vehicle. Gross margin came down to 12.8% in 1Q23 from 13.3% in 1Q22 and 15.4% in 4Q22 mainly due to consolidation of Romanian operations which are assumed to have lower profitability than Turkey operations, in our view. Please recall that, Romanian operations have been consolidated starting from 3Q22. Op-ex / sales slightly fell to 3.6% in 1Q23, down by 0.1ppt both QoQ and YoY. All in all, EBITDA margin was recoded as 10.1% in 1Q23, down by 0.5ppt YoY and 2.6ppt QoQ. EBITDA / vehicle slightly improved to €2,097 in 1Q23 from €2,076 in 1Q22.

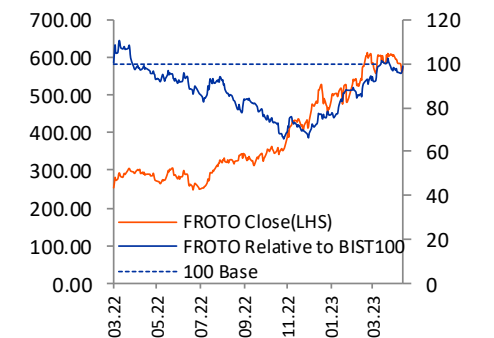
Solid FCF generation. Ford Otosan achieved TL10.29bn FCFs in 1Q23 compared favorably to TL1.71bn in 1Q22 and TL4.85bn in 4Q22 thanks to enhancement in operating profit and improvement in WCR. Company's FCF margin climbed to 15.5% in 1Q23 from 6.1% in 1Q22 and 8.0% in 4Q22. As a result, company's net debt position fell to TL24.38bn as of 1Q23-end from TL27.81bn as of 4Q22-end despite dividend payment of TL5.0bn and cap-ex of TL2.15bn in 1Q23. Net debt / EBITDA declined to 1.0x as of 1Q23-end from 1.4x as of 4Q22-end thanks to massive cash generation but rose slightly from 0.9x as of 1Q22-end.

Stock Data	TL	US\$
Price	573.00	29.46
Target Price	734.45	30.45
Prev.TP	576.00	28.78
Mcap (mn)	201,071	10,340
Float Mcap (mn)	35,710	1,836
Avg.Daily Volume (3M, m)	884.9	54.1
No. of Shares Outstanding (mn)	351	
Free Float (%)	18	
Foreign Share (%)	39	

Price Perf. (%)	1 Mn	Ytd	12 Mn
TL	-2.9	11.8	95.2
US\$	-4.6	7.7	48.7
Rel.to BIST-100	-2.5	28.6	-0.1

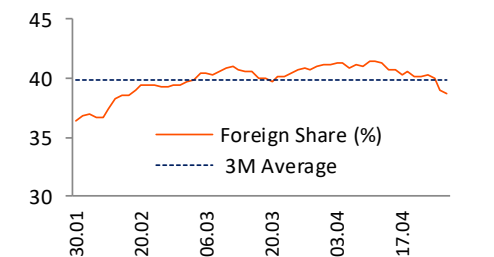
Multiples	2022	2023	2024
P/E	10.8	6.8	4.7
P/BV	9.4	4.5	3.0
EV/EBITDA	11.6	7.3	5.1

### Price / Relative Price



52 Week Range (Close TL) 247.04 611.30

Foreign Share (%) Cur.(%) : 38.65



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**Ford Otosan**

Shareholder Structure (%)		Company Description
Ford Deutschland Holding GmbH	41.0	Production, export, sale and aftersales of CV and HCVs under the license of Ford; also
Koç Holding Anonim Şirketi	38.7	import, distribution and sale of Ford brand PCs.
Other	20.3	

**Impact on Valuation & Outlook**

No revision in 2023 guidance Ford Otosan maintained its previous domestic auto market guidance of 800K – 850K for 2023. The Company also kept its 2023 guidance for retail sales volume of 90K – 100K units ( Is Inv: 94K) and export sales volume of 550K – 570K units (Is Inv: 560K) (Turkey:355K -365K & Romania: 195K – 205K). Company’s total wholesales volume target of 640K – 670K units for 2023 points out 34%-41% growth over 2022. Company’s previous cap-ex guidance of €1,000mn - €1,050mn for 2023 was also kept unchanged.

Comment: We don’t expect to see material market reaction to Ford Otosan’s 1Q23 financial results which are broadly in-line with expectations. The stock outperformed the BIST-100 by 2.5% yesterday and 2.9% for past one week. We maintain our BUY rating for FROTO shares with our PT of TL734.45/share. The Company will hold a webcast today about its 1Q23 results at 04:00pm IST time.

IFRS Income Statements (TL mn)	1Q22	2Q22	3Q22	4Q22	1Q23	2021	2022
<b>Net Sales</b>	<b>27,876</b>	<b>32,854</b>	<b>50,127</b>	<b>60,939</b>	<b>66,302</b>	<b>71,101</b>	<b>171,797</b>
<b>Gross Profit</b>	<b>3,719</b>	<b>5,153</b>	<b>5,687</b>	<b>9,382</b>	<b>8,490</b>	<b>11,154</b>	<b>23,941</b>
Operating Expenses	1,042	1,294	1,501	2,271	2,410	2,745	6,109
<b>EBIT</b>	<b>2,677</b>	<b>3,859</b>	<b>4,186</b>	<b>7,110</b>	<b>6,080</b>	<b>8,410</b>	<b>17,832</b>
<b>EBITDA</b>	<b>2,971</b>	<b>4,149</b>	<b>4,853</b>	<b>7,754</b>	<b>6,715</b>	<b>9,464</b>	<b>19,727</b>
Non-Operating Income (Expense)	-391	-488	-571	-758	-920	277	-2,209
<b>PBT</b>	<b>2,285</b>	<b>3,371</b>	<b>3,615</b>	<b>6,352</b>	<b>5,160</b>	<b>8,687</b>	<b>15,623</b>
Tax Income (Expense)	517	333	201	1,940	193	114	2,991
Minority Interest	0	0	0	0	0	0	0
<b>Net Profit</b>	<b>2,802</b>	<b>3,704</b>	<b>3,816</b>	<b>8,292</b>	<b>5,353</b>	<b>8,801</b>	<b>18,614</b>

Growth & Profitability	1Q22	2Q22	3Q22	4Q22	1Q23	2021	2022
<b>Growth</b>							
Sales Growth (y/y)	72%	212%	166%	140%	138%	150%	142%
Opex Growth (y/y)	105%	151%	175%	93%	131%	147%	123%
EBIT Growth (y/y)	72%	286%	136%	74%	127%	268%	112%
EBITDA Growth (y/y)	64%	230%	138%	78%	126%	220%	108%
NI Growth (y/y)	54%	271%	102%	103%	91%	288%	111%
<b>Margins</b>							
Gross Margin	13.3%	15.7%	11.3%	15.4%	12.8%	15.7%	13.9%
Opex to Sales	3.7%	3.9%	3.0%	3.7%	3.6%	3.9%	3.6%
EBIT Margin	9.6%	11.7%	8.4%	11.7%	9.2%	11.8%	10.4%
EBITDA Margin	10.7%	12.6%	9.7%	12.7%	10.1%	13.3%	11.5%
Net Margin	10.1%	11.3%	7.6%	13.6%	8.1%	12.4%	10.8%
ROE (Annualized)	113.7%	127.7%	126.0%	130.6%	119.6%	44.8%	126.0%
ROA (Annualized)	26.0%	26.3%	24.5%	25.8%	23.9%	11.6%	24.5%
Effective Tax Rate	-22.6%	-9.9%	-5.6%	-30.5%	-3.7%	-1.3%	-19.1%
Operating Cash Flow Margin	14.2%	9.7%	1.5%	18.4%	20.9%	12.2%	11.1%
Free Cash Flow Margin	6.1%	-21.3%	-3.4%	8.0%	15.5%	7.4%	-1.3%
Operational Cash Flow / EBITDA	133%	77%	15%	145%	206%	92%	97%

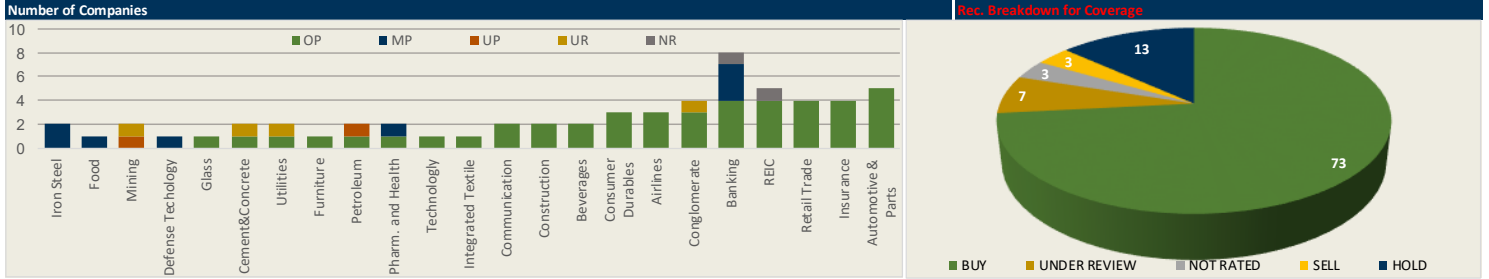
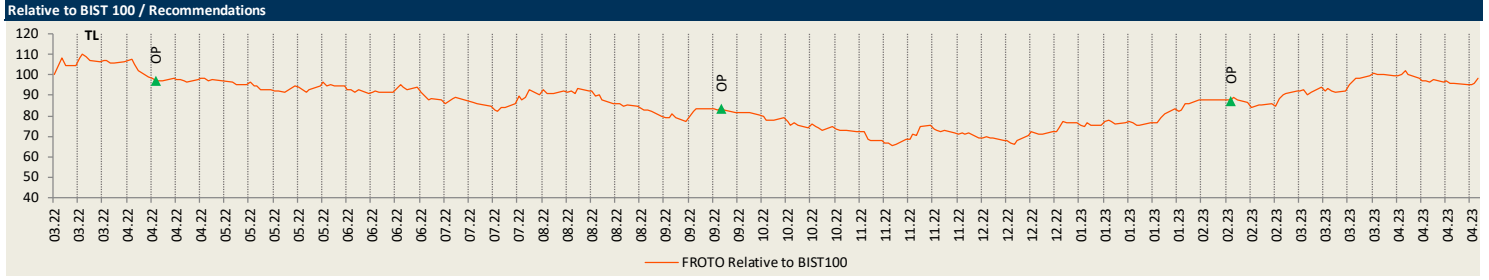
IFRS Cash Flow Statements (TL mn)	1Q22	2Q22	3Q22	4Q22	1Q23	2021	2022
<b>Net Cash from Operations</b>	<b>3,962</b>	<b>3,201</b>	<b>751</b>	<b>11,214</b>	<b>13,838</b>	<b>8,702</b>	<b>19,129</b>
Earnings Before Adjustments	2,802	3,704	3,816	8,292	5,353	8,801	18,614
Depreciation & Amortisation	294	290	667	644	635	1,054	1,895
Others	1,503	1,539	1,376	615	1,334	4,574	5,033
Change in Working Capital	-637	-2,332	-5,108	1,664	6,517	-5,726	-6,413
<b>Cash from Investment Operations</b>	<b>-2257</b>	<b>-10200</b>	<b>-2477</b>	<b>-6363</b>	<b>-3552</b>	<b>-3441</b>	<b>-21296</b>
Capital Expenditures	-807	-1,776	-1,138	-5,912	-2,152	-2,369	-9,632
Cash from Other Investment Operations	-1,450	-8,424	-1,340	-450	-1,400	-1,072	-11,664
<b>Free Cash Flow</b>	<b>1,705</b>	<b>-6,998</b>	<b>-1,726</b>	<b>4,852</b>	<b>10,287</b>	<b>5,261</b>	<b>-2,167</b>
<b>Cash from Financial Operations</b>	<b>-642</b>	<b>5,363</b>	<b>-4,749</b>	<b>-1,962</b>	<b>886</b>	<b>772</b>	<b>-1,989</b>
Change in Financial Debt	3,670	5,478	-4,711	282	5,899	3,563	4,719
Dividends Paid	-4,562	0	0	-2,000	-5,000	-3,576	-6,562
Cash from Other Financial Operations	250	-115	-37	-244	-13	785	-146
Effect of Exchange Rate	0	0	189	-29	-22	0	160
<b>Net Change in Cash &amp; Cash Equivalen</b>	<b>1,063</b>	<b>-1,635</b>	<b>-6,286</b>	<b>2,861</b>	<b>11,151</b>	<b>6,033</b>	<b>-3,997</b>

IFRS Balance Sheet (TL mn)	1Q22	2Q22	3Q22	4Q22	1Q23
<b>Current Assets</b>	<b>37,503</b>	<b>40,039</b>	<b>47,980</b>	<b>55,125</b>	<b>68,380</b>
Cash and Cash Equivalents	15,175	13,542	7,253	10,115	21,285
Short-Term Trade Receivables	11,112	12,117	21,853	25,851	25,227
Inventories	9,034	11,632	15,286	13,854	17,457
Other Current Assets	2,182	2,748	3,588	5,305	4,410
<b>Long Term Assets</b>	<b>12,531</b>	<b>22,988</b>	<b>31,744</b>	<b>40,928</b>	<b>46,401</b>
Long-Term Financial Assets	60	60	79	146	129
Investments with Equity Method	0	0	0	0	0
Tangible Fixed Assets	5,359	6,497	15,622	20,145	21,640
Intangible Fixed Assets	1,783	2,145	6,436	7,454	8,008
Other Long-Term Assets	5,269	14,215	9,516	13,018	16,476
<b>Total Assets</b>	<b>50,034</b>	<b>63,027</b>	<b>79,725</b>	<b>96,052</b>	<b>114,781</b>
<b>Short Term Liabilities</b>	<b>26,228</b>	<b>35,059</b>	<b>41,489</b>	<b>46,206</b>	<b>60,001</b>
Short-Term Financial Loans	10,713	17,509	13,623	13,219	16,564
Short-Term Trade Payables	14,200	16,221	25,770	30,146	38,667
Other Short-Term Liabilities	1,315	1,328	2,096	2,841	4,771
<b>Long Term Liabilities</b>	<b>15,511</b>	<b>16,300</b>	<b>22,596</b>	<b>28,444</b>	<b>32,717</b>
Long-Term Financial Loans	14,354	14,826	20,669	24,700	29,100
Other Long-Term Liabilities	1,157	1,475	1,928	3,744	3,617
<b>Equity</b>	<b>8,295</b>	<b>11,669</b>	<b>15,639</b>	<b>21,402</b>	<b>22,063</b>
Parent Share	8,295	11,669	15,639	21,402	22,063
<b>Total Liabilities and S.Holders' Equity</b>	<b>50,034</b>	<b>63,027</b>	<b>79,725</b>	<b>96,052</b>	<b>114,781</b>

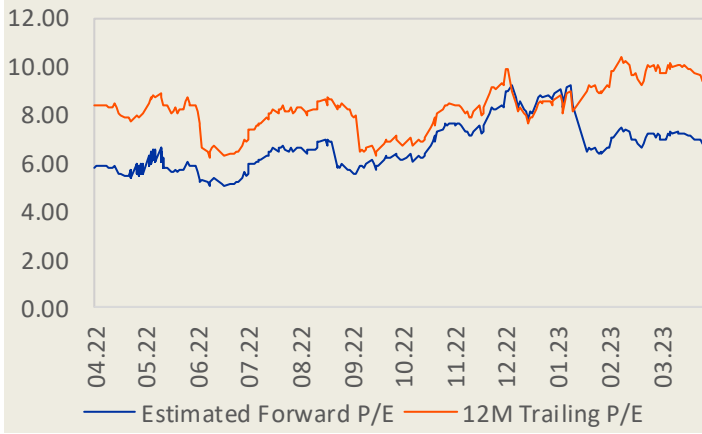
  

Investments & Indebtness	1Q22	2Q22	3Q22	4Q22	1Q23
Net Capex	807	1,776	1,138	5,912	2,152
Capex to Sales	2.9%	5.4%	2.3%	9.7%	3.2%
Inflow (Outflow) for WCR (Cash Flow Sta	-637	-2,332	-5,108	1,664	6,517
Change in WCR / Sales	-2.3%	-7.1%	-10.2%	2.7%	9.8%
Net Debt (Cash)	9,892	18,793	27,039	27,804	24,378
Net Debt / EBITDA (Annualized)	0.9	1.4	1.7	1.4	1.0

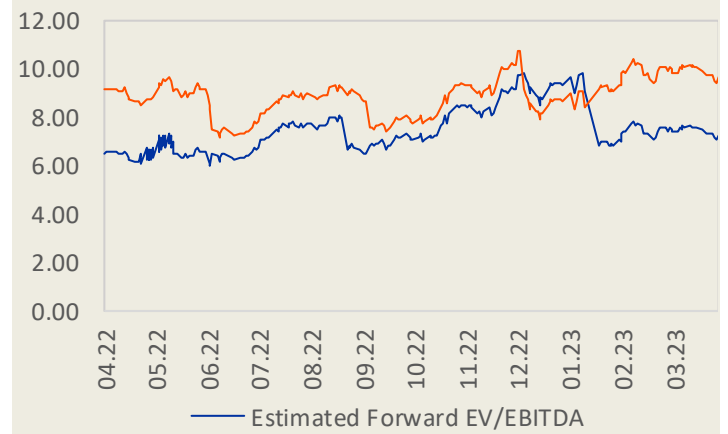
Ford Otosan



Estimated Forward P/E & 12M Trailing P/E



Estimated Forward EV/EBITDA & 12M Trailing EV/EBITDA



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