

Otokar

28.04.2023

Review of 1Q23 Financials

HOLD

Upside Potential 19%

Actual vs Estimates

Weak 1Q23 results. On the contrary to the market net income estimate of TL41mn and our house net income estimate of TL 60mn, Otokar reported TL515mn net losses in 1Q23 compared to net income of TL201mn in 1Q22 and TL639mn in 4Q22. The nose-diving bottom-line figure was mainly attributable to poor operating margins hurt by lack of defense vehicle revenues, higher tax expenses impacted by earthquake taxes and increase in financial expenses (1Q23 : TL353mn versus 1Q22: TL98mn) due to higher interest expenses. Above both market call of TL2.3bn and our call of TL2.2bn, Otokar generated TL2.5bn revenues in 1Q23, up by 96% YoY. Missing market estimate of TL146mn with a wide margin, EBITDA was realized at negative TL114mn in 1Q23 compared to positive TL189mn in 1Q22 and TL644mn in 4Q22.

Highlights of the Quarter

Top-line growth driven by commercial vehicle sales. Domestic revenues grew to TL1.2bn in 1Q23, up by 150%, driven by 20% volume growth and higher sales prices. Export revenues surged to TL1.4bn in 1Q23, up by 66%, thanks to more than doubled volume growth and depreciation in TL. Export sales accounted for 54% share in total turnover in 1Q23 versus 64% in 1Q22. The share of armored vehicles in total turnover dropped to 1% in 1Q23 from 33.1% in 1Q22. On the other hand, holding the lion's share in total revenues, the bus segment increased its share to 74% in 1Q23 from 45% in 1Q22 thanks to increasing contribution of Iveco Project deliveries. Otokar's backlog order increased to TL3.3bn in 1Q23-end from TL2.1bn in 4Q22-end.

Deterioration in margins. Gross margin declined to 15.1% in 1Q23 from 36.1% in 1Q22 and 32.6% in 4Q22. Op-ex/sales slightly decreased to 22.3% in 1Q23, down by 1.9ppt YoY, but went up from 19.7% in 4Q22, up by 2.5ppt QoQ. EBITDA margin sharply fell to negative 4.5% in 1Q23 compared to 14.6% in 1Q22 and 14.4% in 4Q22 due to lack of high-margin defense vehicles contribution to revenues.

Negative FCF. FCF worsened to negative TL127mn in 1Q23 from positive TL524mn in 1Q22 due poor operating performance and increase in WCR driven by increase in inventories, but improved from negative TL829mn in 4Q22. Net debt position surged to TL6.4bn as of 1Q23-end from TL1.9bn as of 1Q22-end and TL5.8bn as of 4Q22-end. Please also note that, on March 13th, Otokar announced not to distribute any dividends for 2023. Net debt/EBITDA ratio rose to 6.8x in 1Q23 from 1.9x in 1Q22 and 4.7x in 4Q22.

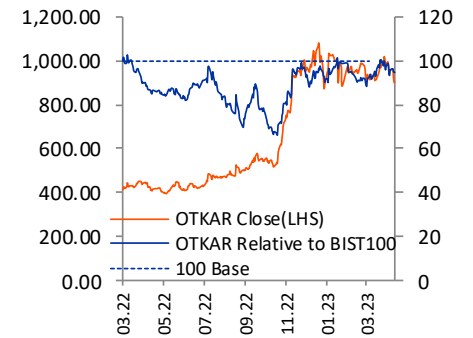
Comment: We expect to see a negative market reaction to OTKAR's weak set of 1Q23 results. The stock underperformed the BIST-100 index by 0.24% yesterday and by -1% on the past one week. After expecting to see similar 2Q23 financial performance, we anticipate Otokar to have a better 2H23 financials driven by expected armored vehicle deliveries.

| Stock Data | TL | US\$ |
|--------------------------------|----------|-------|
| Price | 898.80 | 46.21 |
| Target Price | 1,070.00 | 44.58 |
| Prev.TP | 1,070.00 | 49.38 |
| Mcap (mn) | 21,571 | 1,109 |
| Float Mcap (mn) | 5,936 | 305 |
| Avg.Daily Volume (3M, m) | 123.8 | 5.1 |
| No. of Shares Outstanding (mn) | | 24 |
| Free Float (%) | | 28 |
| Foreign Share (%) | | 12 |

| Price Perf. (%) | 1 Mn | Ytd | 12 Mn |
|-----------------|------|-------|-------|
| TL | -1.0 | -13.4 | 117.1 |
| US\$ | -2.7 | -16.6 | 65.4 |
| Rel.to BIST-100 | -0.5 | -0.4 | 11.1 |

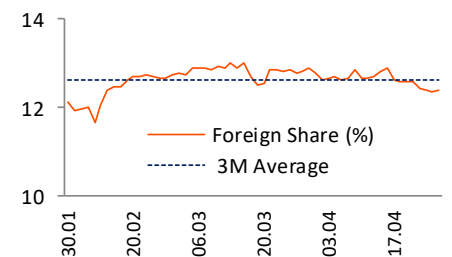
| Multiples | 2022 | 2023 | 2024 |
|-----------|------|------|------|
| P/E | 17.4 | 13.8 | 10.7 |
| P/BV | 10.3 | 6.9 | 5.0 |
| EV/EBITDA | 22.5 | 10.3 | 8.0 |

Price / Relative Price



52 Week Range (Close TL) 398.10 1077.30

Foreign Share (%) Cur.(%) : 12.41



Esra Şirinel

esirinel@isyatirim.com.tr

+90 212 350 25 72

Otokar

| Shareholder Structure (%) | | Company Description |
|------------------------------|------|---|
| Koç Holding Anonim Şirketi | 44.7 | The company manufactures minibuses, midibuses, trailers under brand name of Freuhauf, |
| Other | 30.5 | Land Rover tactical vehicles and own designed armored vehicles. It also engages in test |
| Ünver Holding Anonim Şirketi | 24.8 | and design project of Turkish first main battle tank with other subcontractors. |

| IFRS Income Statements (TL mn) | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2021 | 2022 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Sales | 1,294 | 2,357 | 1,471 | 4,481 | 2,536 | 4,509 | 9,604 |
| Gross Profit | 467 | 738 | 380 | 1,460 | 383 | 1,717 | 3,044 |
| Operating Expenses | 313 | 400 | 382 | 885 | 564 | 909 | 1,980 |
| EBIT | 154 | 337 | -2 | 575 | -181 | 807 | 1,064 |
| EBITDA | 189 | 374 | 36 | 644 | -114 | 913 | 1,244 |
| Non-Operating Income (Expense) | 48 | -12 | 70 | -93 | -202 | 97 | 13 |
| PBT | 202 | 325 | 68 | 481 | -384 | 905 | 1,077 |
| Tax Income (Expense) | -2 | 17 | -11 | 157 | -131 | 137 | 162 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 201 | 342 | 58 | 639 | -515 | 1,042 | 1,239 |

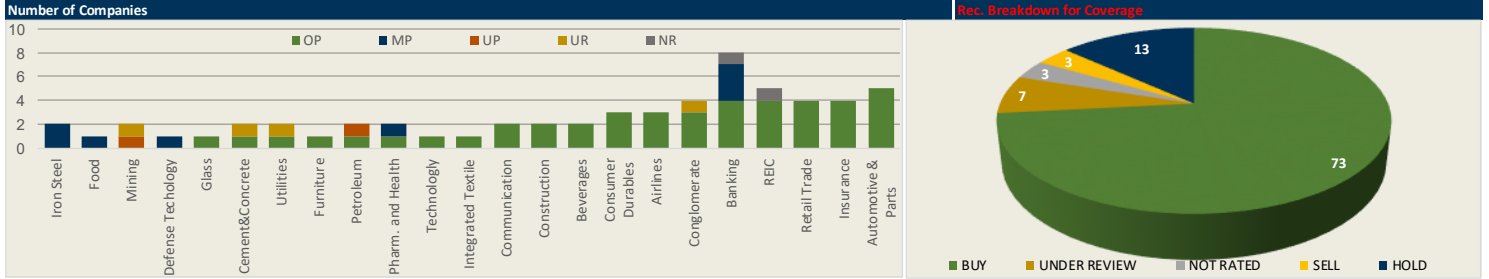
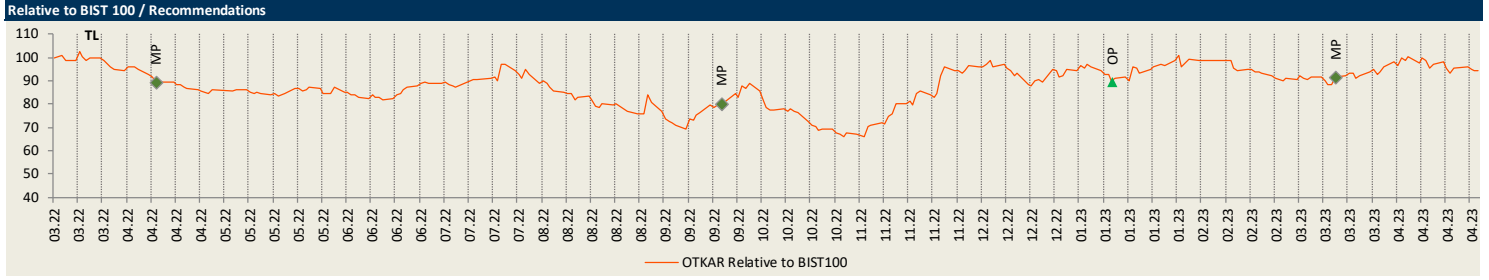
| Growth & Profitability | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2021 | 2022 |
|--------------------------------|-------|--------|--------|--------|--------|--------|--------|
| Growth | | | | | | | |
| Sales Growth (y/y) | 48% | 140% | 81% | 144% | 96% | 158% | 113% |
| Opex Growth (y/y) | 77% | 127% | 141% | 122% | 80% | 152% | 118% |
| EBIT Growth (y/y) | 48% | 58% | -102% | 49% | -218% | 149% | 32% |
| EBITDA Growth (y/y) | 47% | 55% | -73% | 57% | -160% | 132% | 36% |
| NI Growth (y/y) | 87% | 18% | -52% | 22% | -357% | 225% | 19% |
| Margins | | | | | | | |
| Gross Margin | 36.1% | 31.3% | 25.8% | 32.6% | 15.1% | 38.1% | 31.7% |
| Opex to Sales | 24.2% | 17.0% | 25.9% | 19.7% | 22.3% | 20.2% | 20.6% |
| EBIT Margin | 11.9% | 14.3% | -0.1% | 12.8% | -7.2% | 17.9% | 11.1% |
| EBITDA Margin | 14.6% | 15.9% | 2.5% | 14.4% | -4.5% | 20.2% | 12.9% |
| Net Margin | 15.5% | 14.5% | 3.9% | 14.2% | -20.3% | 23.1% | 12.9% |
| ROE (Annualized) | 95.7% | 88.9% | 76.6% | 76.4% | 30.7% | 134.4% | 76.6% |
| ROA (Annualized) | 21.3% | 19.1% | 14.5% | 12.7% | 4.2% | 17.1% | 14.5% |
| Effective Tax Rate | 0.8% | -5.3% | 15.4% | -32.7% | -34.2% | -15.1% | -15.1% |
| Operating Cash Flow Margin | 50.8% | -33.4% | -80.9% | -10.8% | 0.6% | 21.1% | -18.8% |
| Free Cash Flow Margin | 40.5% | -40.1% | -86.3% | -18.5% | -5.0% | 14.9% | -26.2% |
| Operational Cash Flow / EBITDA | 348% | -211% | -3265% | -75% | -14% | 104% | -145% |

| IFRS Cash Flow Statements (TL mn) | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2021 | 2022 |
|--|-------------|-------------|---------------|--------------|--------------|-------------|---------------|
| Net Cash from Operations | 658 | -788 | -1,191 | -482 | 16 | 953 | -1,803 |
| Earnings Before Adjustments | 201 | 342 | 58 | 639 | -515 | 1,042 | 1,239 |
| Depreciation & Amortisation | 36 | 36 | 38 | 69 | 67 | 105 | 180 |
| Others | 250 | 152 | 59 | 472 | 302 | 408 | 933 |
| Change in Working Capital | 172 | -1,319 | -1,346 | -1,662 | 162 | -602 | -4,155 |
| Cash from Investment Operations | -134 | -157 | -79 | -347 | -143 | -280 | -717 |
| Capital Expenditures | -134 | -147 | -282 | -415 | -249 | -499 | -979 |
| Cash from Other Investment Operations | 0 | -10 | 203 | 69 | 105 | 219 | 262 |
| Free Cash Flow | 524 | -945 | -1,269 | -829 | -127 | 673 | -2,520 |
| Cash from Financial Operations | -550 | 919 | 1,522 | 1,730 | 2,252 | -302 | 3,621 |
| Change in Financial Debt | -37 | 1,002 | 1,647 | 2,055 | 2,205 | 268 | 4,667 |
| Dividends Paid | -500 | 0 | 0 | 0 | 0 | -400 | -500 |
| Cash from Other Financial Operations | -13 | -83 | -125 | -325 | 46 | -171 | -546 |
| Effect of Exchange Rate | -20 | -4 | -16 | -40 | -12 | -243 | -81 |
| Net Change in Cash & Cash Equivalen | -46 | -30 | 236 | 862 | 2,113 | 127 | 1,021 |

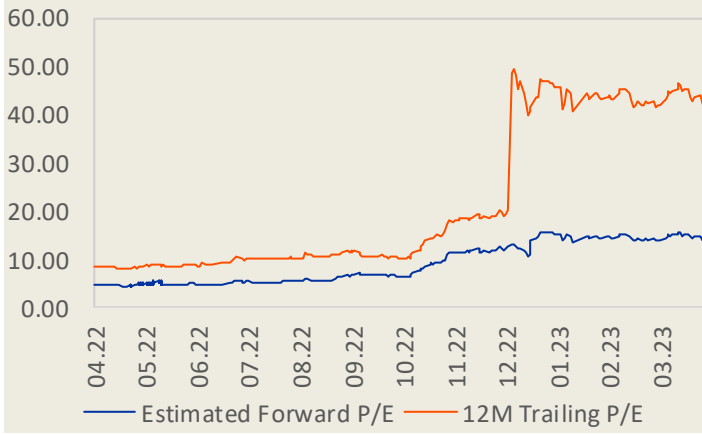
| IFRS Balance Sheet (TL mn) | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
|--|--------------|--------------|---------------|---------------|---------------|
| Current Assets | 3,926 | 5,328 | 7,515 | 10,612 | 13,556 |
| Cash and Cash Equivalents | 598 | 568 | 804 | 1,731 | 3,837 |
| Short-Term Trade Receivables | 1,257 | 1,935 | 1,958 | 4,159 | 4,156 |
| Inventories | 1,859 | 2,549 | 4,181 | 3,870 | 4,757 |
| Other Current Assets | 212 | 276 | 573 | 852 | 806 |
| Long Term Assets | 2,163 | 2,976 | 3,120 | 3,540 | 3,610 |
| Long-Term Financial Assets | 0 | 10 | 10 | 11 | 11 |
| Investments with Equity Method | 200 | 223 | 233 | 241 | 234 |
| Tangible Fixed Assets | 430 | 483 | 573 | 723 | 759 |
| Intangible Fixed Assets | 810 | 873 | 1,031 | 1,234 | 1,386 |
| Other Long-Term Assets | 687 | 1,356 | 1,245 | 1,291 | 1,175 |
| Total Assets | 6,089 | 8,304 | 10,635 | 14,152 | 17,166 |
| Short Term Liabilities | 2,984 | 4,231 | 6,871 | 9,998 | 13,678 |
| Short-Term Financial Loans | 961 | 1,635 | 3,719 | 6,247 | 9,056 |
| Short-Term Trade Payables | 690 | 1,324 | 1,620 | 2,217 | 2,211 |
| Other Short-Term Liabilities | 1,334 | 1,272 | 1,532 | 1,534 | 2,411 |
| Long Term Liabilities | 1,910 | 2,512 | 2,138 | 2,051 | 1,956 |
| Long-Term Financial Loans | 1,498 | 1,901 | 1,548 | 1,301 | 1,194 |
| Other Long-Term Liabilities | 412 | 611 | 590 | 751 | 762 |
| Equity | 1,196 | 1,560 | 1,626 | 2,103 | 1,532 |
| Parent Share | 1,196 | 1,560 | 1,626 | 2,103 | 1,532 |
| Total Liabilities and S.Holders' Equity | 6,089 | 8,304 | 10,635 | 14,152 | 17,166 |

| Investments & Indebtness | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
|---|-------|--------|--------|--------|-------|
| Net Capex | 134 | 147 | 282 | 415 | 249 |
| Capex to Sales | 10.4% | 6.2% | 19.2% | 9.3% | 9.8% |
| Inflow (Outflow) for WCR (Cash Flow Sta | 172 | -1,319 | -1,346 | -1,662 | 162 |
| Change in WCR / Sales | 13.3% | -56.0% | -91.5% | -37.1% | 6.4% |
| Net Debt (Cash) | 1,860 | 2,968 | 4,462 | 5,816 | 6,413 |
| Net Debt / EBITDA (Annualized) | 1.9 | 2.7 | 4.4 | 4.7 | 6.8 |

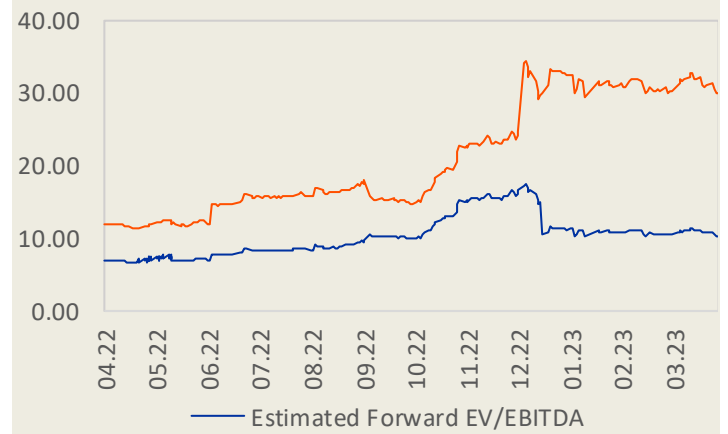
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Estimated Forward P/E & 12M Trailing P/E



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



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