

## Ford Otosan

Yesterday, we visited the tooling, stamping, welding, assembly, and battery areas at Ford Otosan's Gölcük and Yeniköy factories in Kocaeli. Afterwards, we met with company executives to evaluate Ford Otosan and sectoral developments. The factories located in Gölcük and Yeniköy, Kocaeli, serve as a comprehensive automotive innovation center where next-generation electric commercial vehicle projects are implemented, new technologies are developed, and modern production methods are utilized. FROTO aims to enhance its electric commercial vehicle production capacity at the Gölcük and Yeniköy factories and to improve its production processes in line with its goal of becoming carbon neutral by 2030. In Q2 2024, the company reported a net profit of TL6bn and is currently trading at a market multiple of 12.70x EV/EBITDA.

### Highlights of the visit

- The growth journey will continue with increased production capacity...** The company management stated that the Kocaeli factories are among the most efficient in terms of both production capacity and efficiency within Ford's global network. Of the vehicles produced at these factories, 84% are destined for export markets, while 16% are for the domestic market. The Gölcük factory holds the title of the first factory to produce electric commercial vehicles. At the Yeniköy factory, the production cycle is 90 seconds, enabling a production potential of 750-900 Transit Custom vehicles per day.
- Production model tailored to demand and customer needs...** The company management indicated that by evaluating production processes in the light of customer needs and market demands, they foresee that the transition to electrification may take longer than expected. They emphasized that the flexibility to produce internal combustion engine (ICE), plug-in hybrid electric vehicle (PHEV), and battery electric vehicle (BEV) models on the same production line will ensure production efficiency during this transition. Thus, this flexibility will allow potential challenges arising from possible setbacks in the electrification process to be leveraged into advantages.
- The increase in production numbers due to the Ford-Volkswagen collaboration...** Within the framework of the collaboration between Ford and Volkswagen, it was decided that Volkswagen's next-generation 1-ton commercial vehicle will be produced at Ford Otosan's Kocaeli factory. With an investment of EUR1.39bn planned between 2021 and 2025, the annual production capacity will be raised to 405,000 vehicles. Volkswagen Transporter and Ford Custom models will be produced at this facility, with shipments of the Transporter expected to begin in early 2025. The company indicated that they anticipate some slowdown in order intake during November-December; however, they believe that the increase in partner vehicle numbers and the expansion of the product range due to the collaboration with Volkswagen will lead to an increase in export share. Additionally, with the addition of Volkswagen products to the production line, a significant increase in both production and total sales volumes is expected.

FROTO

Buy

Target Price

TL 1.292

Return potential

34%

### Share Data

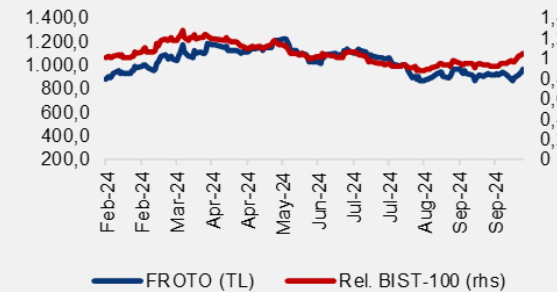
Ticker:	FROTO TI
Share price (as of 09.10.2024)	963,00
Share price (52 week range)	860 / 1.222
Market cap. (TL mn - USD mn)	337926,3 - 9.882
# of shares (mn) & free float	351 - 18%
Foreign Ownership Rate	35,55%
Market	Star
Industry	Automotive

Avg. trading volume	1M	3M	12M
USD mn	25,3	27,0	33,7

Price performance	1M	3M	Y-t-D
TL	5%	-10%	35%
USD	4%	-14%	16%
Rel. to BIST-100	12%	7%	10%

Forecasts (TL mn)	2022	2023	2024E
Revenues	322.556	411.906	565.282
EBITDA	31.981	42.710	44.227
Net Earnings	27.730	49.056	35.683

Valuation	2022	2023	2024E
P/E	12,2x	6,9x	9,5x
P/BV	6,6x	3,7x	3,0x
EV/EBITDA	12,9x	9,7x	9,3x
EV/Sales	1,3x	1,0x	0,7x
Dividend Yield	4,1%	6,1%	8,1%



- Transition from operator to autonomy in the Yeniköy Assembly Workshop...** The Yeniköy Factory is Ford Otosan's facility with the highest vehicle production capacity per square meter. This workshop currently has an annual production capacity of 245,000 vehicles over an area of 110,000 m<sup>2</sup>, and with the commissioning of the new facility, this capacity is planned to increase to 400,000 vehicles. The plant currently produces 39 vehicles per hour, and with the expansion, the production speed is aimed to reach 64 vehicles per hour. Furthermore, the Automated Guided Vehicles (AGV) system used in Ford Otosan's factories enables a transition to an automation-based production model by eliminating reliance on operator-based material supply. AGVs autonomously handle material transportation, providing seamless flow between production lines while offering flexibility in the production of internal combustion, hybrid, and electric vehicles. This system reduces dependence on human labor, lowers labor costs, enhances workplace safety, and plays a significant role in achieving digital transformation goals.
- Battery workshop...** The battery workshop at Ford Otosan's Kocaeli factory plays a critical role in the production of batteries, which account for approximately 40% of total production costs. This workshop has an annual production capacity of 120,000 batteries and operates with 21 stations. The batteries produced here are directed to the Yeniköy factory, where the Transit Custom model is manufactured. Currently, a total of 180 operators work in the workshop, including approximately 120 production operators and 60 maintenance operators, with a goal to increase this number to 210. The workshop has implemented technologies that have not been used within Ford before. Collaborative robots (cobots) work safely alongside operators to manage battery control and conduct post-production End-of-Line electrical tests for each battery. These innovative processes enhance the strategic importance of the Kocaeli factory in the electrification process.
- Competition that Chinese brands could create in the commercial vehicle market...** The company management stated that vehicles from Chinese brands are competitive in terms of features and quality; however, they are currently focusing on the passenger car market. They added that Ford Pro's biggest advantage in competing with Chinese brands lies in "production and efficiency," and they aim to stand out more through the services they offer rather than just vehicle sales. Among the major shortcomings of Chinese brands are the absence of value-added services provided by Ford, a lack of partners and distribution channels in large markets like Europe, and the inability to establish brand loyalty.
- On the path to becoming a global center for electric vehicle production...** Ford Otosan holds 15% of Ford's total production volume globally and plays a significant role in supporting Ford's strategy to offer a fully electric fleet in Europe by 2035. Plans are in place to launch passenger and commercial electric vehicles in the European market by 2024, and with its flexible production capability, Ford Otosan is positioned as one of the largest supporters of this transition. The company plans to produce 6 out of the 9 electric vehicle models that Ford intends to launch, including models such as Puma, Explorer, Capri, Mustang Mach-E, Transit Courier, Tourneo Courier, Transit Custom, and E-Transit. With this project, Ford Otosan's expertise in electric and commercial vehicles will enable the company to play a critical role in the electric vehicle transformation in Europe.

## Summary Tables

(TLmn)	2023/1Q	2023/2Q	2023/3Q	2023/4Q	2024/1Q	2024/2Q	(y/y)
<b>Net Sales</b>	123.176	130.018	86.106	185.945	134.626	106.779	-18%
<b>EBITDA</b>	12.713	13.676	11.975	16.294	10.765	7.061	-48%
<b>Net Income</b>	8.841	10.556	13.014	23.962	9.727	5.976	-43%



### Expectations

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- The company management forecasts that the total automotive market in Türkiye for 2024 will range between 1,000,000 and 1,100,000 units, and it could even reach 1.2 million units due to strong demand in the domestic market. They also noted that the largest contraction in the export market in Q1 2024 occurred in the Ford Trucks segment. However, normalization in Ford Trucks volumes is expected to continue in 2025.
- Ford Otosan management stated that 2025 will be an intense year for investment expenditures, and some of the CAPEX for 2024 might be postponed to the following year due to calendar effects. The current expectation is 900-1,000 million euro.
- The company management does not have high expectations for possible interest rate cuts for the remainder of the year, and they foresee that the strong movement of the Turkish lira will continue. Additionally, they mentioned that credit penetration has significantly decreased and that they are trying to develop alternative vehicles for second-hand and trade-in transactions. Furthermore, the management anticipates that demand in the domestic market may contract somewhat in 2025.

<b>Balance Sheet</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>
Cash	16.666	18.990	15.842
Accounts receivables	42.595	56.866	79.327
Inventory	23.275	36.613	60.751
Financial investments	0	0	0
Fixed assets	61.449	93.746	121.733
Other non-current assets	-92.844	-115.150	-165.947
<b>Total assets</b>	<b>51.142</b>	<b>91.066</b>	<b>111.706</b>
Short-term financial loans	21.781	42.365	67.916
Accounts payables	49.673	65.567	92.276
Long-term financial loans	40.699	52.128	58.448
Other long-term payables	45.489	91.633	117.309
<b>Non-current liabilities</b>	<b>157.641</b>	<b>251.693</b>	<b>335.949</b>
<b>Shareholders' equity</b>	<b>51.142</b>	<b>91.066</b>	<b>111.706</b>
Paid in Capital	351	351	351
Other Equity	50.791	90.715	111.355
<b>Total liabilities &amp; equity</b>	<b>174.307</b>	<b>270.684</b>	<b>351.791</b>

**Per share (TL)**

EPS	79,02	139,80	101,69
BVPS	145,74	259,51	318,33
DPS	39,11	111,84	77,77

**Ratios****Profitability**

ROE	90,5%	69,0%	35,2%
Net margin	8,6%	11,9%	6,3%
Asset turnover	10,5x	5,8x	5,6x
Leverage	1,0x	1,0x	1,0x
ROA	90,5%	69,0%	35,2%

**Leverage**

Financial debt/Total assets	36%	35%	36%
Net debt/Equity	0,00	0,00	0,00
Net debt/EBITDA	0,00	0,00	0,00

<b>Income statement</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>
<b>Revenues</b>	<b>322.556</b>	<b>411.906</b>	<b>565.282</b>
Gross profit	36.599	55.248	61.053
Operating expenses	-11.813	-18.602	-26.902
Operating profit	24.786	36.646	34.151
<b>EBITDA</b>	<b>31.981</b>	<b>42.710</b>	<b>44.227</b>
Other income, net	2.485	7.371	376
Financial income, net	-1.794	611	-1.975
Earnings before taxes	25.447	47.428	35.747
Tax expense	2.283	1.627	-65
<b>Net earnings</b>	<b>27.730</b>	<b>49.056</b>	<b>35.683</b>

**Cashflow statement**

EBITDA	<b>31.981</b>	<b>42.710</b>	<b>44.227</b>
Taxes on EBIT	2.224	1.257	-1.787
Capital expenditures	-13.161	-31.175	-37.639
Chg. in NWC	0	0	0
<b>Free cashflows to firm</b>	<b>21.044</b>	<b>12.793</b>	<b>4.800</b>

Revenues	354%	28%	37%
EBITDA	238%	34%	4%
Net earnings	215%	77%	-27%
Gross margin	11,3%	13,4%	10,8%
Operating margin	7,7%	8,9%	6,0%
EBITDA margin	9,9%	10,4%	7,8%
Net margin	8,6%	11,9%	6,3%
Free cashflow margin	6,5%	3,1%	0,8%

**Valuation**

P/E	12,2x	6,9x	9,5x
P/BV	6,6x	3,7x	3,0x
EV/EBITDA	12,9x	9,7x	9,3x
EV/Sales	1,3x	1,0x	0,7x
Dividend Yield	4,1%	6,1%	8,1%
Free cashflow yield	6,2%	3,8%	-0,5%

Source: Company Data, Tacirler Investment

\* All figures are stated in millions of TL unless otherwise stated.

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