

## Ford Otosan

### The export champion is regaining its momentum...

We revise our estimates and 12-month target price for Ford Otosan from 847 TL to 1,292 TL per share, and we reiterate our BUY recommendation. The main catalysts driving our valuation for FROTO are: i) the ongoing increase in production volumes following the Craiova acquisition, ii) the launch of new production models, and iii) the continued electrification transformation. Our target indicates a 43% upside potential. In our estimates for the 2024F period, FROTO trades at 9.3x EV/EBITDA and 8.9x P/E, while in the 2025F period, it trades at 6.7x EV/EBITDA and 7.3x P/E.

**We expect a recovery following normalization...** The integration of Chinese-made vehicles into both the Turkish and European markets has become a pressure point for the automotive sector. Chinese brands, whose production largely focuses on automobiles, are competing in different segments with Ford Otosan, which predominantly produces light commercial vehicles. We anticipate that the company, which has been reporting profitability below market expectations, will experience positive momentum in profitability starting from the first quarter of 2025.

**Acceleration in Production Capacity...** With its operations in Turkey and Romania, Ford Otosan, which is the driving force behind Turkey's automotive production with a 45% market share, has positioned itself as a global automotive manufacturer, boasting a production capacity of 746,500 units across four different locations in 2023. The company acquired the Ford Romania facilities in the third quarter of 2022 to expand its production capacity. In 2023, Romania's operations contributed 190,964 units to the total production. The commencement of next-generation Courier production at the Romanian plant in the first seven months of 2024 led to a 28.7% increase in total production compared to 2Q23. We expect the Romanian market's contribution to consolidated production to continue by year-end and anticipate further strengthening in the European automotive market. The production capacity of the Eskişehir plant increased by 20% in the last quarter of 2023, reaching 22.5 thousand units. The company maintains its 2024 production target in the range of 650-700 thousand units, with expectations to exceed 900 thousand units in 2025. We estimate Ford Otosan's total production in 2024 to reach 710 thousand units. The company achieved an average capacity utilization rate of 84% across all production facilities in the first half of 2024, and we project this figure to adjust to 82% in 2025 and gradually rise to 86% by 2033.

**New Models to Contribute to the Existing Business Model...** The prolonged transition period for the production of new models and the delayed launch of these models had previously led to an annual increase in stock levels, negatively impacting the company's profitability. FROTO, which has initiated electric vehicle production activities, is expected to commence production of the 100% electric E-Courier model in 1Q25. Additionally, the company continues its efforts in electrification, with plans to start production of the E-Truck model in 2025, while the electric battery-powered versions of the Courier and Puma are anticipated to be available in the market in the first quarter of 2025. Furthermore, by the end of the year, the company will, for the first time, begin production for VW commercial models, in addition to its existing Ford lineup.

FROTO

Buy

Target Price

TL 1.292

Return potential

43%

#### Share Data

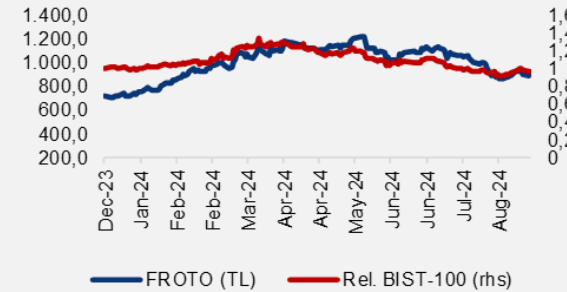
Ticker:	FROTO TI		
Share price (as of 27.08.2024)	903,50		
Share price (52 week range)	702 / 1.222		
Market cap. (TL mn - USD mn)	317047,2 - 9.337		
# of shares (mn) & free float	351 - 18%		
Foreign Ownership Rate	36,68%		
Market	Star		
Industry	Automotive		

Avg. trading volume	1M	3M	12M
USD mn	28,1	32,2	34,4

Price performance	1M	3M	Y-t-D
TL	-10%	-19%	27%
USD	-12%	-24%	10%
Rel. to BIST-100	1%	-12%	-3%

Forecasts (TL mn)	2023	2024E	2025E
Revenues	411.906	565.282	739.342
EBITDA	42.710	44.227	61.451
Net Earnings	49.056	35.683	43.243

Valuation	2023	2024E	2025E
P/E	6,5x	8,9x	7,3x
P/BV	3,5x	2,8x	2,5x
EV/EBITDA	9,7x	9,3x	6,7x
EV/Sales	1,0x	0,7x	0,6x
Dividend Yield	6%	9%	11%



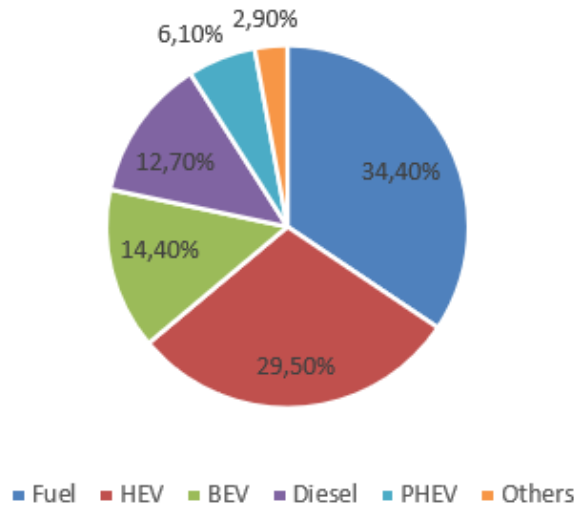
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**Risks:** i) The continuation of economic stagnation caused by tight monetary policy in exports, ii) intensified competition in the domestic and European markets due to the entry of Chinese vehicles, iii) potential delays in the market launch of new vehicles, and iv) ongoing contraction in the domestic market are the key risks.

**Preparations for the Electrification Transition Continue...** The company, which began its electrification journey in 2019 with the Plug-in Hybrid Electric Vehicle (PHEV) Custom model, aims to offer electric options for all its models by 2025. In 2023, FROTO produced 14,188 units of the E-Transit model. As of the first half of 2024, the company, which manufactures 74% of Ford's commercial vehicles sold in Europe, recognizes the importance of the demand for electric vehicles in the European market. In the first half of 2024, electric vehicles accounted for approximately 30% of all vehicle sales in Europe. In June 2024, sales of petrol vehicles remained relatively stable, decreasing by 0.7%. Declines in France (-20.2%) and Spain (-7.5%) were offset by growth in Germany (+12.1%) and Italy (+6.9%). Consequently, petrol vehicles represented 34.4% of the automotive market in Europe, down from 36.2% in June of the previous year. According to statistics published by the European Automobile Manufacturers' Association, approximately 18% of automotive registrations in Europe in 6M24 were Battery Electric Vehicles, 13-14% were Hybrid Electric Vehicles, and 10-12% were Plug-in Hybrid Electric Vehicles. In line with its sustainability goals, the company aims for 50% of Ford Trucks' sales in Europe to be zero-emission vehicles by 2030, with a target of 100% zero-emission vehicle sales across all operations by 2040. In this context, we believe that the company, progressing according to its electrification roadmap, will achieve a lower total cost of ownership in the coming periods, supported by incentives for the electrification transition in the European market.

### New EU Vehicle Registrations by Power Source

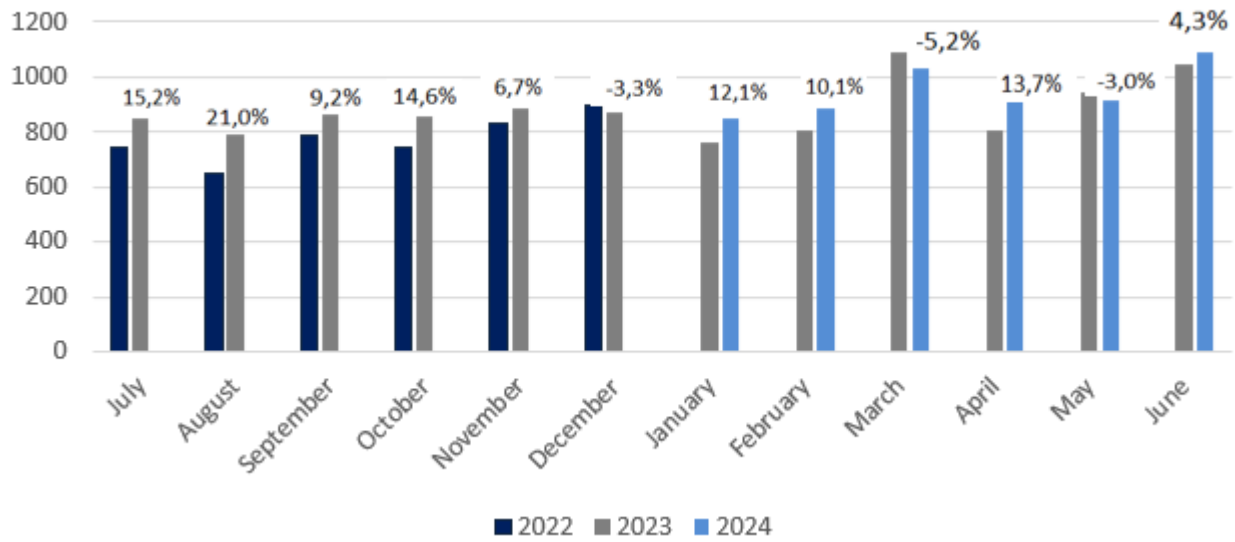


Source: ACEA, Tacirler Investment

**Foundations of the Ford-Volkswagen Partnership are Being Laid...** As part of the ongoing collaboration between Ford Motor Company and Volkswagen AG, which began in 2018, an agreement was reached for the joint production of a 1-ton medium commercial vehicle. Within this framework, various production and supply agreements were signed between Ford Otosan and Ford Motor Company. According to the agreement, Volkswagen's new generation 1-ton commercial vehicle will be produced at Ford Otosan's Kocaeli plants. Between 2021 and 2025, a total investment of 1.390 billion Euros will be made to establish an annual production capacity of 405,000 units of 1-ton medium commercial vehicles, replacing the existing capacity of 195,000 similar vehicles. Production will be carried out based on a cost-plus pricing method over 11 years. The Volkswagen Transporter and Ford Custom models will be manufactured under the same roof at the Kocaeli-Yeniköy plant, with shipments of the new generation Volkswagen Transporter expected to begin at the start of 2025.

**The Increasing Footprint of Romanian Operations in the European Market...** We expect the Romanian operations, acquired in 2Q22 and consolidated in 3Q22, to continue playing a significant role in the company's future projections. Ford Otosan, which has become the producer of the Puma, the best-selling Ford-branded passenger car model in Europe, adapted the production of the Courier from the Yeniköy plant to Craiova in 4Q23. The company has a total production capacity of 272,000 units at the Romanian plant, and as of July 2024, Craiova is operating at a 93% capacity utilization rate. Ford Otosan plans to invest €490 million in the new Courier production by the end of 2024. In the first half of 2024, the sales volume of Craiova operations increased by 14% year-on-year. Additionally, the company aims to achieve sales of 210-230 thousand units from its Romanian facilities in 2024 and expects total Romanian production to be in the range of 250-270 thousand units (compared to 191 thousand units produced and 180 thousand units sold in 2023). Beginning in 1Q25, it is anticipated that the electric model of the Puma will be produced at the Craiova plant, with production expected to increase to 189 thousand units.

### EU New Vehicle Registrations



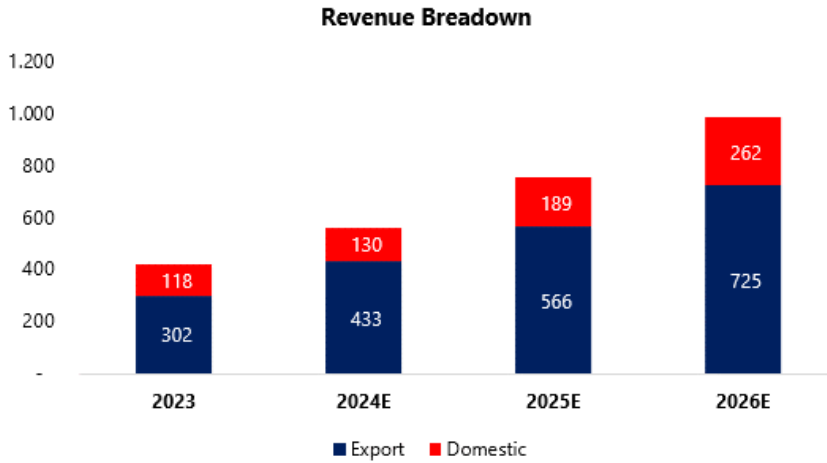
Source: ACEA, Tacirler Investment

## Valuation

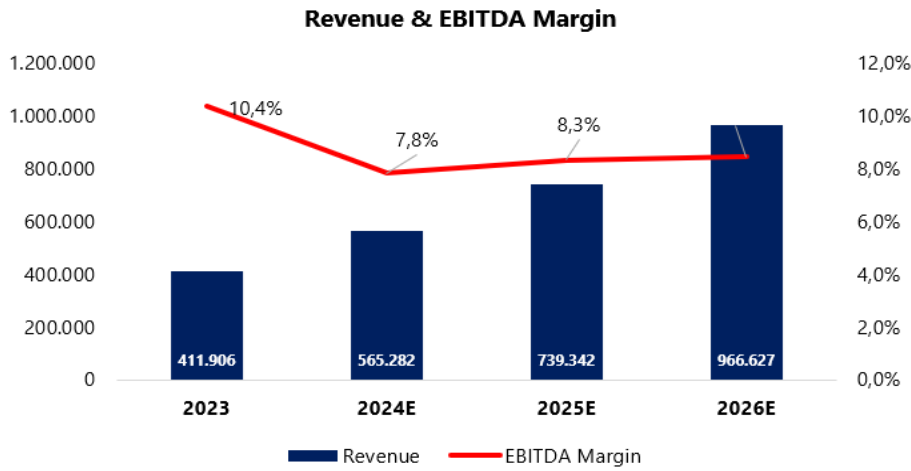
For FROTO, based on our Discounted Cash Flow (DCF) model, we calculate a 12-month target price of 1,292 TL per share, using our cash flow projections for the 2024-2033 period. The target price we have determined indicates a potential return of 43%. The weighted average cost of capital (WACC) calculated for our projection period is at the level of 14%

**Exhibit: Table: FROTO Discounted Cash Flow Chart**

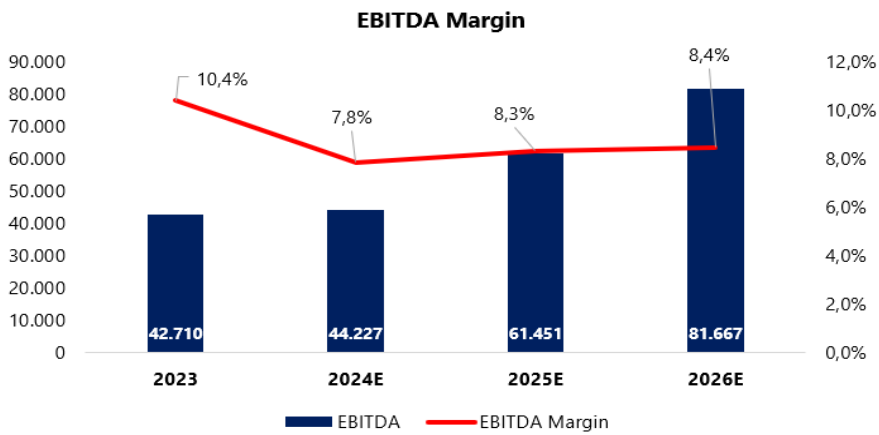
TL mn	2023	2024E	2025E	2026E	2027E	2028E
<b>Revenues</b>	<b>411.906</b>	<b>565.282</b>	<b>739.342</b>	<b>966.627</b>	<b>1.249.879</b>	<b>1.561.781</b>
Growth%	27,7%	37,2%	30,8%	30,7%	29,3%	25,0%
<b>EBITDA</b>	<b>42.710</b>	<b>44.227</b>	<b>61.451</b>	<b>81.667</b>	<b>105.968</b>	<b>131.810</b>
Growth%	33,5%	3,6%	38,9%	32,9%	29,8%	24,4%
<i>EBITDA Margin</i>	10,4%	7,8%	8,3%	8,4%	8,5%	8,4%
Taxes paid on EBIT	1.257	-1.787	-2.468	-3.222	-4.184	-24.718
CAPEX	-31.175	-37.639	-48.490	-61.463	-78.224	-95.402
Change in Net Working Capital	11.714	19.890	8.250	12.680	16.397	2.633
<b>Free cash flow from operations</b>	<b>1.078</b>	<b>-15.090</b>	<b>2.243</b>	<b>4.303</b>	<b>7.164</b>	<b>9.057</b>
FCFF Margin	0,3%	-2,7%	0,3%	0,4%	0,6%	0,6%
WACC		15%	14%	14%	13%	13%
<b>DFC</b>		<b>-13.115</b>	<b>1.725</b>	<b>2.942</b>	<b>4.382</b>	<b>4.942</b>
Terminal growth rate	4,8%					
Terminal Value	2.694.945					
<b>PV of Terminal Value</b>	<b>297.821</b>					
PV of FCFF	251.115					
PV of Terminal Value	297.821					
<b>Enterprise Value</b>	<b>548.936</b>					
<b>Equity Value</b>	<b>453.229</b>					
# shares of outstanding	351					
<b>Fair Value per share (12-mth fwd)</b>	<b>1292</b>					
Current share price	903,50					
<b>Upside / (Downside)</b>	<b>43%</b>					



Source: FROTO, Tacirler Investment



Source: FROTO, Tacirler Investment



Source: FROTO, Tacirler Investment

## Projections

Balance Sheet	2022	2023	2024E	2025E
Cash	16.666	18.990	15.842	19.546
Accounts receivables	42.595	56.866	79.327	79.814
Inventory	23.275	36.613	60.751	61.462
Financial investments	0	0	0	0
Fixed assets	61.449	93.746	121.733	160.752
Other non-current assets	-92.844	-115.150	-165.947	-194.458
<b>Total assets</b>	<b>51.142</b>	<b>91.066</b>	<b>111.706</b>	<b>127.117</b>
Short-term financial loans	21.781	42.365	67.916	88.721
Accounts payables	49.673	65.567	92.276	85.225
Long-term financial loans	40.699	52.128	58.448	82.182
Other long-term payables	45.489	91.633	117.309	131.160
<b>Non-current liabilities</b>	<b>157.641</b>	<b>251.693</b>	<b>335.949</b>	<b>387.288</b>
<b>Shareholders' equity</b>	<b>51.142</b>	<b>91.066</b>	<b>111.706</b>	<b>127.117</b>
Paid in Capital	351	351	351	351
Other Equity	50.791	90.715	111.355	126.766
<b>Total liabilities &amp; equity</b>	<b>174.307</b>	<b>270.684</b>	<b>351.791</b>	<b>406.834</b>

### Per share (TL)

EPS	79,02	139,80	101,69	123,23
BVPS	145,74	259,51	318,33	362,25
DPS	39,11	111,84	77,77	95,50

### Ratios

#### Profitability

ROE	90,5%	69,0%	35,2%	36,2%
Net margin	8,6%	11,9%	6,3%	5,8%
Asset turnover	10,5x	5,8x	5,6x	6,2x
Leverage	1,0x	1,0x	1,0x	1,0x
ROA	90,5%	69,0%	35,2%	36,2%

#### Leverage

Financial debt/Total assets	36%	35%	36%	42%
Net debt/Equity	0,00	0,00	0,00	0,00
Net debt/EBITDA	0,00	0,00	0,00	0,00

Income statement	2022	2023	2024E	2025E
<b>Revenues</b>	<b>322.556</b>	<b>411.906</b>	<b>565.282</b>	<b>739.342</b>
Gross profit	36.599	55.248	61.053	82.482
Operating expenses	-11.813	-18.602	-26.902	-35.334
Operating profit	24.786	36.646	34.151	47.148
<b>EBITDA</b>	<b>31.981</b>	<b>42.710</b>	<b>44.227</b>	<b>61.451</b>
Other income, net	2.485	7.371	376	857
Financial income, net	-1.794	611	-1.975	-8.069
Earnings before taxes	25.447	47.428	35.747	42.982
Tax expense	2.283	1.627	-65	261
<b>Net earnings</b>	<b>27.730</b>	<b>49.056</b>	<b>35.683</b>	<b>43.243</b>

### Cashflow statement

EBITDA	31.981	42.710	44.227	61.451
Taxes on EBIT	2.224	1.257	-1.787	-2.468
Capital expenditures	-13.161	-31.175	-37.639	-48.490
Chg. in NWC	0	0	0	0
<b>Free cashflows to firm</b>	<b>21.044</b>	<b>12.793</b>	<b>4.800</b>	<b>10.494</b>

Revenues	354%	28%	37%	31%
EBITDA	238%	34%	4%	39%
Net earnings	215%	77%	-27%	21%

Gross margin	11,3%	13,4%	10,8%	11,2%
Operating margin	7,7%	8,9%	6,0%	6,4%
EBITDA margin	9,9%	10,4%	7,8%	8,3%
Net margin	8,6%	11,9%	6,3%	5,8%
Free cashflow margin	6,5%	3,1%	0,8%	1,4%

### Valuation

P/E	11,4x	6,5x	8,9x	7,3x
P/BV	6,2x	3,5x	2,8x	2,5x
EV/EBITDA	12,9x	9,7x	9,3x	6,7x
EV/Sales	1,3x	1,0x	0,7x	0,6x
Dividend Yield	4,3%	6,1%	8,6%	10,6%
Free cashflow yield	6,6%	4,0%	-0,5%	3,3%

Source: Company Data, Tacirler Investment

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

## Important Disclosures

### Rating Methodology

Stock ratings are based on the absolute return potential of the stock, which is defined as the percentage change in target price from the current share price. All recommendations and target prices are set with a 12-month horizon. Target prices are set by using one or more of the following methodologies: DCF, Net Asset Valuation, sum of the parts model and multiple comparison.

### Rating Definition

**Buy:** The stock is expected to generate a return of more than 30% in TL terms.

**Hold:** The stock is expected to generate a return of less than 15% in TL terms.

**Sell:** The stock is expected to generate a negative return within the forecast horizon.

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