

Türk Traktör

Normalization in margins after record year...

We are revising our target price for TTRAK and adjusting our recommendation to HOLD.

Following our updated macro forecasts and the 2Q24 financial results, we are revising our 12-month target price for TTRAK to 995 TL per share. Although our revised 12-month target price for the company indicates a return potential slightly above the index, due to the limited near-term catalysts for the company, we are updating our recommendation from BUY to HOLD. In our 2024E forecasts, TTRAK is trading at a 5.4x EV/EBITDA and 8.7x P/E ratio, while in our 2025E forecasts, it is trading at a 3.8x EV/EBITDA and 4.7x P/E ratio.

Key Highlights from the 2Q Financial Performance

Net Profit Aligned with Expectations: According to the 2Q24 financial statements, TürkTraktör's net profit for 2Q24 amounted to 1,941 million TL, reflecting a year-on-year decrease of 12.2% (Tacırler Investment: 2,027 million TL). This result is consistent with our forecasts. For the first half of 2024, net profit declined by 25% year-on-year to 3,836 million TL. We project that TürkTraktör's net profit for 2024 will normalize to approximately 8.8 billion TL following the record levels of profitability achieved in 2023.

Sales Revenues in Accordance with Expectations: TürkTraktör's consolidated sales revenues for 2Q24 were 15.67 billion TL, marking a 17.6% year-on-year decline, which is in line with our expectations (Tacırler Investment: 16.41 billion TL). When considering the effect of TMS 29 included in 1Q24's sales revenues, there was an approximate 13% decline. On the production front, TürkTraktör's total production in 2Q24 decreased by 10.9% compared to the previous quarter, and by 6.7% year-on-year. We anticipate an average production decrease of approximately 8% for the remainder of the year. In terms of sales volume, the total tractor sales volume for 2Q24 decreased by 5.9% year-on-year. International sales volume fell by 22% year-on-year, while domestic sales increased by 4% year-on-year. On a quarterly basis, international sales volume declined by 16.5%, whereas domestic sales volume decreased by 9.8%.

Gradual Normalization in Operational Profitability: TürkTraktör's EBITDA for 2Q24 decreased by 35% year-on-year to 2,885 million TL, with an EBITDA margin of 18.4% (2Q24 Tacırler Investment Estimate: 3,197 million TL). We forecast that the high increase in costs, particularly the persistent rise in raw material prices and higher operational expenses, will lead to a 2% year-on-year reduction in EBITDA margin, bringing it to 18.2% by the end of 2024. Additionally, TTRAK's investment expenditures amounted to 1,683 million TL in 1H24, compared to 517 million TL in 1H23.

TTRAK **HOLD**

Target Price **TL 995**
Return potential **30%**

Share Data

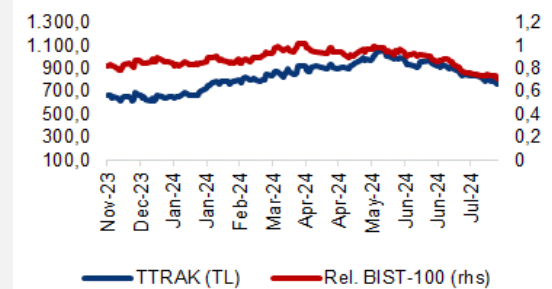
Ticker:	TTRAK TI
Share price (as of 01.08.2024)	766,00
Share price (52 week range)	617,47 / 1063,00
Market cap. (TL mn - USD mn)	76651,2 - 2.317
# of shares (mn) & free float	100 - 24%
Foreign Ownership Rate	27,02%
Market	Star
Industry	Automotive

Avg. trading volume	1M	3M	12M
USD mn	8,9	10,6	15,3

Price performance	1M	3M	Y-t-D
TL	-15%	-17%	15%
USD	-17%	-19%	2%
Rel. to BIST-100	-19%	-22%	-21%

Forecasts (TL mn)	2023	2024E	2025E
Revenues	65.338	78.724	104.556
EBITDA	13.890	14.317	20.563
Net Earnings	9.794	8.781	16.476

Valuation	2023	2024E	2025E
P/E	7,8x	8,7x	4,7x
P/BV	4,0x	2,9x	2,0x
EV/EBITDA	5,0x	5,4x	3,8x
EV/Sales	1,0x	0,9x	0,4x
Dividend Yield	6%	9%	7%



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Sector Overview and Forecasts

Agricultural Input Prices and Interest Rates: The rise in agricultural input prices and the challenge of accessing credit due to high interest rates, coupled with the increased cost of credit, are placing pressure on demand. Conversely, according to TÜİK data, vegetable, fruit, and grain production is anticipated to decline by 2% in 2024. Additionally, climate change is causing precipitation levels to remain below historical averages across the country, which could adversely affect production yields. In 2023, Ziraat Bank's share of new tractor loans, which had previously supported high domestic sales, decreased from 69% in May 2023 to 33% in May 2024 (Ziraat Bank interest rate: 29%). On the other hand, Türk Traktör Finans's share in credit utilization increased from 3% in May 2023 to 38% in May 2024. We expect Türk Traktör Finans to have a positive effect on tractor sales. We forecast a 12% year-on-year contraction in tractor sales volume, potentially falling to approximately 45,000 units by the end of 2024.

Production Volume Trends: We anticipate that the trend of decreasing production volumes will persist. TTRAK produced a total of 24,420 units in the first six months of the year. We expect this downward trend to continue, with total production declining by 7.8% year-on-year to 47,400 units for the remainder of the year.

Domestic Market Share Recovery: From 2021 to 2023, TTRAK has experienced a decline in its domestic market share. However, we anticipate a gradual recovery in the remaining months of 2024. As of 1H24, the company's domestic market share has increased to 48.3%, up from 42.4% in the same period of the previous year. We expect the domestic market share to stabilize at around 49% for the remainder of the year. In 2023, the company achieved a total sales volume of 36,000 units in the domestic market. For 2024, Türk Traktör's domestic sales volume is projected to be between 30,000 and 33,000 units (Tacirler Investment Research: 31,500 units).

Weak Export Demand Expected to Persist: Türk Traktör conducts 80% of its total exports to North American and European markets. Due to the stringent monetary policies anticipated to persist in these markets in 2024, a contraction in demand and pressure on export sales volumes are expected. Türk Traktör, which achieved an export volume of 16,000 units in 2023, anticipates sales in the range of 13,500 to 15,000 units in 2024. We project 13,600 units in export sales, reflecting a 17% decline in export volume (industry expectations suggest an approximate 13% decrease).

Risks: Key risks in our valuation of TTRAK include difficulties in accessing subsidized loans, reduced overseas sales due to economic downturn prospects, supply chain disruptions, and increased competition in the domestic market potentially leading to market share loss.

Financials

TTRAK(Mn TL)	Announced	Tacirler Inv.		1Q24	4Q23	2Q23	1Q23	6M24	6M23	Chg.
	2Q4	2Q24E	Chg.							
Net Sales	15.679	16.419	-17,6%	16.595	26.020	10.805	16.427	33.013	27.231	21,2%
COGS	-12.078		-13,6%	-12.686	-19.704	-7.703	-13.067	-25.164	-20.769	21,2%
Gross Profit	3.601	3.940	-28,8%	3.909	6.316	3.102	3.360	7.849	6.462	21,5%
<i>Gross Profit Margin</i>	23,0%	24,0%	3,6 ppt	23,6%	24,3%	28,7%	20,5%	23,8%	23,7%	0,1 ppt
Operating Expenses	-1.090		12,3%	-1.182	-1.988	-484	-922	-2.397	-1.406	70,5%
CAPEX	1.132			551	878	-318	731	1.420	414	243,3%
EBITDA	2.885	3.197	-35,2%	3.091	5.247	2.456	2.749	6.288	5.205	20,8%
<i>EBITDA Margin</i>	18,4%		4,9 ppt	18,6%	20,2%	22,7%	16,7%	19,0%	19,1%	0,1 ppt
Net Financial Income/Expenses				-89	581	115	252	-89	367	
Pre-Tax Profit				2.415	4.642	2.645	2.443	2.415	5.089	
Tax Expense				-510	-1.596	-465	-593	-510	-1.058	
Net Profit	1.941	2.027	-37,6%	1.906	3.046	2.181	1.850	3.932	4.031	-2,5%
<i>Net Profit Margin</i>	12,4%	12,3%	4 ppt	11,5%	11,7%	20,2%	11,3%	11,9%	14,8%	2,9 ppt

Source: TTRAK, Tacirler Investment, Research Turkey

Valuation

TL mn	2024E	2025E	2026E	2027E
Revenues	78.724	104.556	130.551	159.815
Growth%	34,7%	32,8%	24,9%	22,4%
EBITDA	14.317	20.563	24.141	29.287
Growth%	-8,0%	43,6%	17,4%	21,3%
<i>EBITDA Margin</i>	18,2%	19,7%	18,5%	18,3%
Taxes paid on EBIT	-3.155	-4.483	-3.318	-4.109
CAPEX	-3.858	-3.973	-4.569	-5.114
Change in Net Working Capital	4.059	-8.271	2.334	-4.059
Free cash flow from operations	3.244	20.378	13.920	24.123
FCFF Margin	4,1%	19,5%	10,7%	15,1%
WACC	26%	26%	27%	27%
DFC	2.553	12.559	6.689	9.015
Terminal growth rate	6,0%			
Terminal Value	340.244			
PV of Terminal Value	27.686			
PV of FCFF	72.778			
PV of Terminal Value	27.686			
Enterprise Value	100.464			
Latest Net Debt	914			
Equity Value	99.550			
Fair Value per share (12-mth fwc)	995			
Current share price	766,00			
Upside / (Downside)	30%			

Projections

Balance Sheet (TLmn)	2021	2022	2023	2024E	2025E
Cash	1.567	7.278	15.381	13.674	38.246
Accounts receivables	1.264	3.463	3.013	6.019	5.997
Inventory	1.739	6.333	10.847	15.897	8.778
Financial investments	0	692	114	26	29
Fixed assets	1.068	6.189	8.614	10.973	6.974
Other non-current assets	472	2.051	2.515	4.135	4.549
Total assets	6.111	26.006	40.484	50.725	64.572
Short-term financial loans	580	5.459	6.203	5.841	6.425
Accounts payables	2.409	8.115	10.952	14.948	16.078
Long-term financial loans	555	951	1.018	1.018	1.918
Other long-term payables	515	2.236	3.105	2.716	2.743
Non-current liabilities	4.060	16.762	21.278	24.524	27.164
Shareholders' equity	2.051	9.244	19.207	26.201	37.409
Paid in Capital	53	53	100	100	100
Other Equity	1.998	9.191	19.107	26.101	37.309
Total liabilities & equity	6.111	26.006	40.484	50.725	64.572
Net debt	-432	-868	-8.160	-6.814	-29.903
Net working capital	594	1.681	2.908	6.968	-1.303
Per share (TL)					
EPS	13,21	43,07	97,87	87,75	164,65
BVPS	20,50	92,38	191,94	261,83	373,84
DPS	8,49	27,87	31,43	65,25	52,65
Ratios					
Profitability					
ROE	75,7%	76,3%	68,8%	38,7%	51,8%
Net margin	11,4%	10,4%	15,0%	11,2%	15,8%
Asset turnover	2,2x	2,6x	2,0x	1,7x	1,8x
Leverage	3,1x	2,8x	2,3x	2,0x	1,8x
ROA	24,7%	26,8%	29,5%	19,3%	28,6%
Leverage					
Financial debt/Total assets	19%	25%	18%	14%	13%
Net debt/Equity	-0,21	-0,09	-0,42	-0,26	-0,80
Net debt/EBITDA	-0,25	-0,18	-0,59	-0,48	-1,45
Income statement	2021	2022	2023	2024E	2025E
Revenues	11.644	41.397	65.338	78.724	104.556
Gross profit	2.133	6.449	18.967	18.411	24.458
Operating expenses	-560	-2.476	-4.587	-5.791	-6.527
Operating profit	1.573	3.973	14.381	12.620	17.931
EBITDA	1.733	4.914	13.890	14.317	20.563
Other income, net	-159	-332	-706	-1.125	-1.487
Financial income, net	95	876	813	364	3.414
Earnings before taxes	1.510	4.554	14.511	11.883	19.899
Tax expense	-188	-244	-3.498	-3.102	-3.423
Net earnings	1.322	4.310	9.794	8.781	16.476
Cashflow statement	2021	2022	2023	2024E	2025E
EBITDA	1.733	4.914	13.890	14.317	20.563
Taxes on EBIT	-335	-411	-1.150	-3.155	-4.483
Capital expenditures	-320	-1.600	-1.726	-3.858	-3.973
Chg. in NWC	406	1.086	1.228	4.059	-8.271
Free cashflows to firm	672	1.817	9.786	3.244	20.378
Growth & margins					
Revenues	87%	256%	58%	20%	33%
EBITDA	64%	184%	183%	3%	44%
Net earnings	70%	226%	127%	-10%	88%
Gross margin	18,3%	15,6%	29,0%	23,4%	23,4%
Operating margin	13,5%	9,6%	22,0%	16,0%	17,1%
EBITDA margin	14,9%	11,9%	21,3%	18,2%	19,7%
Net margin	11,4%	10,4%	15,0%	11,2%	15,8%
Free cashflow margin	5,8%	4,4%	15,0%	4,1%	19,5%
Valuation					
P/E	58,0x	17,8x	7,8x	8,7x	4,7x
P/BV	37,4x	8,3x	4,0x	2,9x	2,0x
EV/EBITDA	44,7x	15,8x	5,0x	5,4x	3,8x
EV/Sales	6,5x	1,8x	1,0x	0,9x	0,4x
Dividend Yield	1,1%	8,3%	6,4%	8,5%	6,9%
Free cashflow yield	0,9%	2,4%	12,8%	4,2%	26,6%

Source: Company Data, Tacirler Investment

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

Investment Centers

Headquarter

Nispetiye Cad. B-3 Blok Kat: 9 Akmerkez Etiler - İSTANBUL
0 212 355 46 46

Adana	Cemal Paşa Mah. Gazipaşa Bul. Cemal Uğurlu Apt. Kat: 1 D: 4	(0 322) 457 77 55
Akatlar İrtibat Bürosu	Akat Mahallesi Meydan Caddesi B Blok No: 16 D: 8 (Eski No D: 10) Beşiktaş	(0 212) 355 46 46
Ankara	Remzi Oğuz Arık Mah. Tunalı Hilmi Cad. Yaprak Apt. No: 94 Kat: 2 D: 9 Kavaklıdere Çankaya	(0 312) 435 18 36
Ankara - Çukurambar İrtibat Bürosu	Kızılırmak Mah.Ufuk Üniversitesi Cad. Next Level Loft Ofis No: 4/65 Kat: 24 Söğütözü Çankaya	(0 312) 909 87 70
Antalya	Şirinyalı Mah. İsmet Gökşen Cad. Özden Apt. No:82/6 Muratpaşa	(0 242) 248 45 20
Bakırköy	İstanbul Cad. Bakırköy İş Merkezi No: 6 Kat: 4 D: 14 Bakırköy	(0 212) 570 52 59
Bodrum İrtibat Bürosu	Konacık Mahallesi, Atatürk Bulvarı, Arbor-Abdullah Ünal Çabuk İş Merkezi No: 285/1-A6 Bodrum	(0 212) 355 46 46
Bursa	Konak Mah. Barış (120) Sokak , Ofis Artı Binası, Dış kapı No:3 Daire:33 Nilüfer-BURSA	(0 224) 225 64 10
Çankaya İrtibat Bürosu	Çankaya Mahallesi Cinnah Caddesi Cinnah Apartmanı No: 55 D: 7-8 Çankaya / ANKARA	(0 212) 355 46 46
Denizli	Urban İş Merkezi 2. Ticari Yol Daire 26 Kat: 6 Bayramyeri	(0 258) 265 87 85
Erenköy	Bağdat Cad. Çubukçu Apt. No: 333 Kat: 2 D: 4 Kadıköy	(0 216) 348 82 82
Gaziantep	İncilipinar Mah. Gazimuhtarpaşa Bul. Kepkepzade Park İş Merkezi B Blok No: 18 Kat: 1 D: 5	(0 342) 232 35 35
Girne	Ziya Rızıkı Cad. Şehit Necati Gürkaya Sok. Kat: 1 D: 1 Girne - KKTC	(0 392) 815 14 55-0533 889 15 51
İzmir	Kültür Mahallesi, Cumhuriyet Bulvarı No:137 Cumhuriyet Apt. K:5 D:12 Konak – İzmir	(0 232) 445 01 61
İzmir Karşıyaka Şube	Yalı Mahallesi Ahmet Kemal Baysak Bulvarı No:42 D:11	(0 232) 241 19 24
İzmir İrtibat Bürosu	Şehit Nevres Bulvarı Eczacıbaşı Apartmanı No: 7 Kat: 2 Daire: 5 Pasaport Alsancak - Konak	(0 232) 241 24 50
İzmit	Hürriyet Cad. Kaya İşhanı No: 39/5 İzmit	(0 262) 323 11 33
İzmit İrtibat Bürosu	Ömerağa Mah. Alemdar Cad. İ. Kolaylı Apt. No: 8 Kat: 2 İzmit	(0 262) 260 01 01
Karadeniz Ereğli	Bağlık Mahallesi Karanfil Sokak No:16 İç Kapı No:8 Karadeniz Ereğli – Zonguldak	(0 372) 316 40 50
Kartal	Üsküdar Cad. Cevat Kayacan Apt. No: 26 Kat: 4 D: 8 Kartal	(0 216) 306 22 71-306 22 06
Kayseri	Hunat Mah. Nuh Mehmet Baldöktü Sok. Gürcüoğlu Plaza No: 5 K: 3 D: 11 Melikgazi	(0 352) 221 08 68-222 82 51
Marmaris İrtibat Bürosu	Kemeraltı Mah. Orgeneral Mustafa Muğlalı Cad. Güven Apt. No: 22 D: 2 Marmaris	(0 252) 321 08 00
Merkez Şube	Akat Mahallesi Meydan Caddesi B Blok No: 16 D: 7 (Eski No D: 9) Beşiktaş	(0 212) 355 46 46
Mersin	İnönü Mah. 1401 Sok. No:32 Pozcu Evo Kat:2 No:10-11 Yenişehir Mersin	(0 324) 238 11 89
Trabzon İrtibat Bürosu	Kemerkaya Mahallesi Halkevi Cad. Mandıralı İş Merkezi No: 4 Daire: 4 Ortahisar	(0 462) 432 24 50

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 above the index in TL terms.

Hold: The stock is expected to generate a return in line with the index in TL terms.

Sell: The stock is expected to generate a return below the index within the forecast horizon.

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