

Turkish Automobiles

Valuations lag financial performance

Equities Automobiles

Türkiye

- ◆ Volumes and margins likely peaked in 2023 but valuations appear to be largely discounting a difficult 2024
- ◆ We now see Turkish demand declining by 20% in 2024e (15% previously); view FROTO as the most defensive via exports
- ◆ Upgrade FROTO to Buy; retain Buy on DOAS and TOASO, Hold on TTRAK; TPs cut for all except FROTO, which we raise

2023 performance undermined by concerns of a downturn in 2024. This past year ended with record light vehicle (LV) sales in Türkiye of 1.23m units, up 57% y-o-y and 25% above the previous peak of 984k units in 2016. Our forecasts suggest that the companies under our coverage grew their 2023 EBITDA and net profit by 121% and 126%, respectively, in aggregate terms. Domestic volumes and profit margins likely peaked in 2023 with some normalisation finally kicking in this year. That said, judging from the share price moves, we think that current valuations largely discount a difficult 2024; BIST100 relative stock returns in the last 12 months were as follows: Dogus Otomotiv (DOAS) at -2%, Ford Otosan (FROTO) at +7%, Tofas (TOASO) at -4% and Turk Traktor (TTRAK) at +57%. Accordingly, we see ample valuation upside for all but TTRAK. Our revised estimates reflect 20% weaker Turkish LV demand in 2024, softer margins across the board, and aggregate profit growth of 4%.

Upgrade FROTO to Buy; maintain Buy on DOAS and TOASO, Hold on TTRAK. FROTO is the most defensive to weaker domestic demand in 2024 with its strong exports and industry-leading position in electrification. TOASO has entered the new year with some uncertainties (delayed acquisition of Stellantis-Türkiye; few details on new models). We now assume Stellantis-Türkiye operations will be consolidated from 2025, and we cut our fair value for that operation by 50%. Positive news flow on this front could catalyse the stock, as well as could better perform in the domestic market if consumers trade down. DOAS, as a pure domestic play, is fully exposed to local market dynamics and our expectation for a pullback in Turkish vehicle demand this year. Consolidation of the real estate unit, started in 4Q 2023, also creates some uncertainty. That said, the stock is inexpensive on multiples (2024e PE 3.5x) and its dividend yield (2023e 14.3%) is among our coverage's highest. TTRAK faces a likely demand contraction (20%) in Türkiye in 2024 along with a less attractive financing environment for farmers for tractor purchases. The dividend yield is the highest among our coverage (2023e 14.6%), but the outlook turns negative post 1Q 2024.

Key changes to ratings and estimates

Company	Ticker	Ccy	Current price	TP		Rating		Upside/downside	Market cap (USDm)	3m ADTV (USDm)	PE 2024e	EV/EBITDA 2024e	Div yield 2024e
				Old	New	Old	New						
Dogus Otomotiv	DOAS	TRY	248.00	420.00	320.00	Buy	Buy	29.0%	1,834	21	3.5	2.1	14.3%
Ford Otosan	FROTO	TRY	750.00	1,025.00	1,165.00	Hold	Buy	55.3%	8,845	35	5.8	6.2	12.1%
Tofas	TOASO	TRY	220.00	380.00	310.00	Buy	Buy	40.9%	3,697	39	6.1	3.3	8.1%
Turk Traktor	TTRAK	TRY	685.50	880.00	800.00	Hold	Hold	16.7%	2,305	15	6.5	5.8	14.6%

Source: HSBC estimates. Priced as of close at 4 January 2024.

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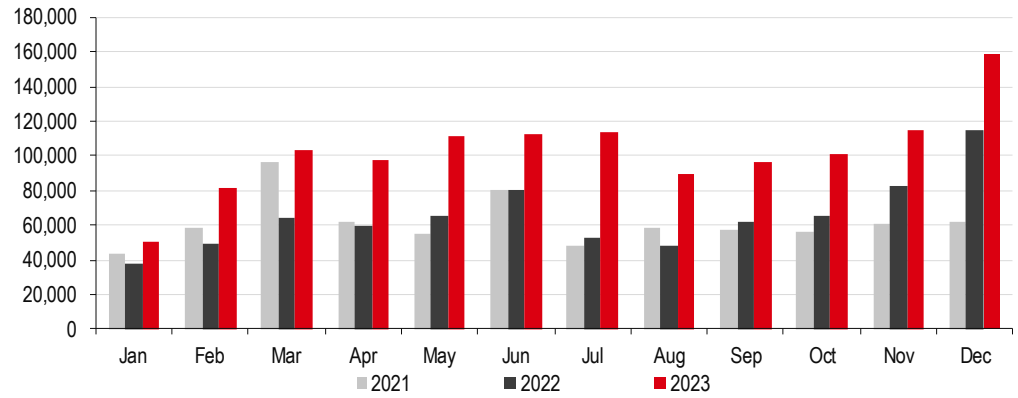
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Turkish autos in charts and tables

Turkish LV* demand (units) – 2023 ends with all-time-high LV sales



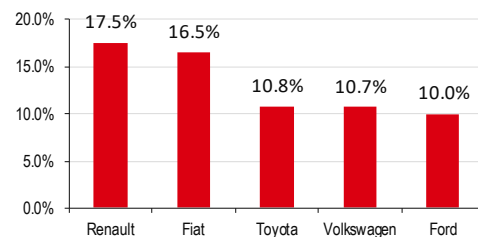
Source: ODMD (Turkish Auto Distributors and Mobility Association), HSBC estimates
*LV = light vehicles (passenger cars + light commercial vehicles).

Leasing/rental sector likely to provide some demand support going forward



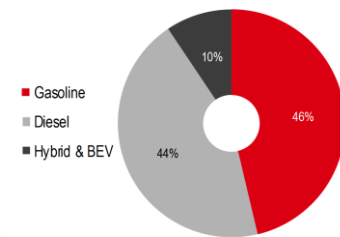
Source: TOKKDER (Turkish Auto Leasing and Rental Companies Association)

Leasing market shares (9M 2023)



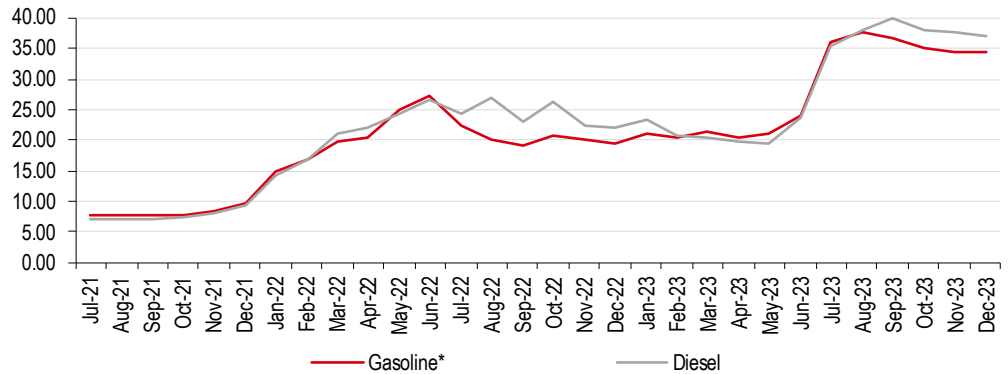
Source: TOKKDER

Leasing market by engine type (9M 2023)



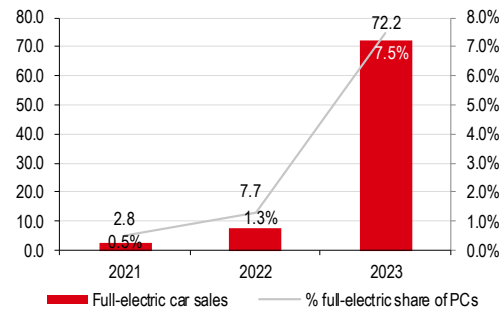
Source: TOKKDER

Fuel price shows marginal decline but remains at elevated levels



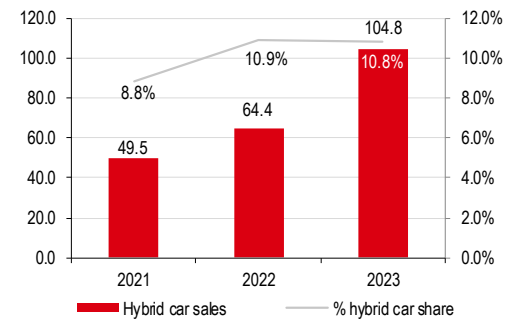
Source: Aytemiz Petrol website
*Istanbul retail pump prices in TRY per litre (end of month) and for gasoline 95 octane optimum.

BEV sales continue to surge (x 000)



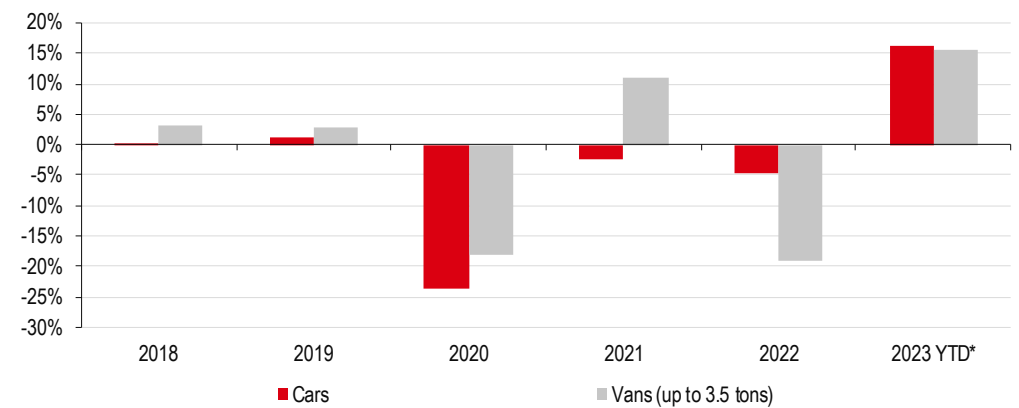
Source: ODMD

Hybrids losing momentum (x 000)



Source: ODMD

European new vehicle registrations have benefited from pent-up demand in 2023



Source: ACEA for cars, Ford Otosan for vans
*January to November 2023.

2024 outlook

We see 2024 as a year of softer domestic volumes following a substantial surge in 2023.

We now pencil in a 20% y-o-y decline for the LV market (from 15%), retreating from c1.23m in 2023e to slightly below 1m in 2024e. Under Turkish auto market standards, we regard this as a “moderate” correction and c1m units as still a good demand level. The market reached a high base in 2023 which we think will be difficult to beat in the context of Türkiye’s high interest rate and slower economic growth environment this year. We think that investment demand for cars during last year’s environment of high inflation and robust resale pricing but weak availability has fully subsided, following rapid interest rates hikes since mid-2023, as well as regulatory actions to prevent re-sales of brand new cars at a premium in the market. At some point in 2023 (especially during H1), various industry participants estimated that four out of every 10 cars sold in the market were “investments”. Improved availability also enabled vehicles to reach real consumers (as opposed to “traders”) starting in 2H 2023, either shortening or eliminating waiting times.

We believe there could still be some pent-up demand into 2024 from retail consumers and particularly from leasing companies, given that the leasing market had difficulty renewing its aging fleet post COVID-19 owing largely to a lack of vehicle availability. Fleet sales may support total sales volumes but should come at the expense of profit margins. We therefore think we could see a switch in 2024 from a “seller’s market” to a “buyer’s market,” with auto companies seeking a balance between volumes and pricing. Likely changes in the sales mixes (more fleet and export sales) suggest margin contraction should be a common theme.

Last year saw substantially stronger sales of imported vehicles in Türkiye as opposed to locally manufactured, taking the market share of imports in the overall LV market to c65% – one of the highest levels in recent years (all-time high was 68% in 2016). While imported cars continued to raise their share to c68% (vs 74-75% in 2015-16), imported light commercial vehicles (LCVs) saw a jump to 54% of the total, which is a record level. Output problems earlier in the year (including for market leader FROTO) and the cessation of TOASO’s Fiat Doblo model were the main reasons that imported brands took market share. We expect this situation to correct to some extent in 2024, and assume lower contraction for locally produced vehicles, particularly LCVs, than imports. We introduce our 2026 estimates wherein we assume a recovery to 2023 levels.

As we also discuss in a bit more detail in the “electrification roadmap” section below, we see rising EV sales in Türkiye as a partial support factor for total market volumes in 2024e. Total electric car (BEV) sales reached c72k in 2023, representing c8% of the total car market and c6% of the LV market. We assume a further c65% surge in EV sales in 2024e to 120k units, improving their share to c16% of passenger cars (PCs) and c12% of LVs in a declining market.

Turkish vehicle demand: forecast changes

000 units	2023		2024e				2025e				2026e			
	actual	chg y-o-y	old	new	new/old	chg y-o-y	old	new	new/old	chg y-o-y	old	new	new/old	chg y-o-y
PC - total	967	63%	705	763	8%	-21%	789	878	11%	15%	-	962	-	10%
PC - domestic	311	35%	210	265	26%	-15%	235	304	29%	15%	-	342	-	12%
PC - imports	656	81%	495	499	1%	-24%	554	573	3%	15%	-	620	-	8%
LCV - total	265	39%	230	217	-6%	-18%	258	250	-3%	15%	-	276	-	10%
LCV - domestic	123	9%	125	110	-12%	-10%	140	127	-9%	15%	-	143	-	12%
LCV - imports	143	82%	105	107	2%	-25%	118	123	5%	15%	-	133	-	8%
LV - total	1,233	57%	935	981	5%	-20%	1,047	1,128	8%	15%	-	1,238	-	10%
LV - domestic	434	26%	335	375	12%	-14%	375	431	15%	15%	-	484	-	12%
LV - imports	799	82%	600	606	1%	-24%	672	696	4%	15%	-	753	-	8%
HC - total*	55	25%	42	41	-3%	-25%	47	47	0%	15%	-	55	-	17%
Total (ex-tractors)	1,287	56%	977	1,022	5%	-21%	1,095	1,175	7%	15%	-	1,293	-	10%
Tractors*	79	18%	63	63	0%	-20%	66	66	0%	5%	-	66	-	0%

Source: ODMD, HSBC estimates

Note: PC = passenger cars, LCV = light commercial vehicles, LV = light vehicles (PC + LCV); HC = heavy commercial vehicles. *2023 figures are estimates.

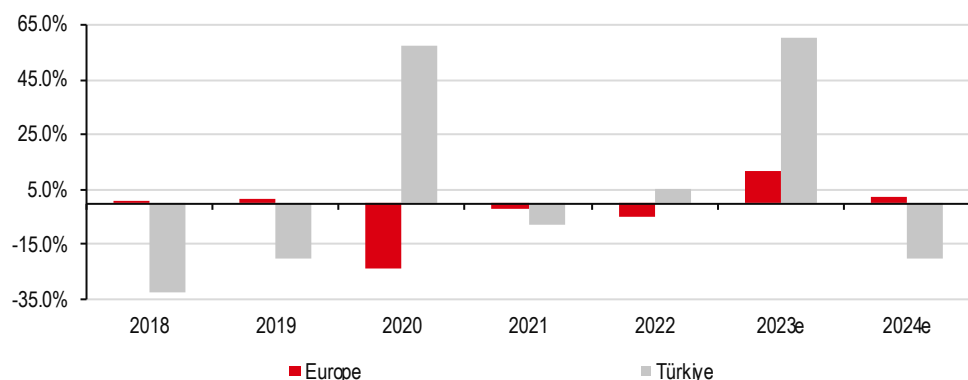
Exports outlook

The single-largest export destination for the Turkish automotive industry, Europe, saw a pent-up-demand-driven rise in vehicle sales in 2023. European (EU plus UK) new car registrations grew by c16% in 2023 (January to November) and light commercial vehicle (vans up to 3.5 tons) registrations posted similar growth (c15%) in the January-September period, based on the latest data available to us. This was despite the noteworthy rise in interest rates and the economic slowdown in the Eurozone in 2023 (GDP grew to an estimated 0.5% per HSBC, from 3.5% in 2022), as well as in the UK (GDP grew to an estimated 0.3%, per HSBC, from 4.3% in 2022) (see [European Economics](#), 4 January 2024). Easing supply-side constraints and thus better vehicle production and availability helped meet the pent-up demand in 2023, keeping volumes firm despite the weak macro environment.

Looking into 2024, HSBC expects economic growth to remain muted in the Eurozone (0.5%) and in the UK (0.7%), with Germany, one of the key export markets, contracting (-0.1%). That said, HSBC economists believe we are not far from the end of the rate hike cycle with likely global rate cuts in 2024 (HSBC expects the Fed and ECB to start easing in June 2024). With the support of the macro environment, alongside lingering potential pent-up demand and a further easing of production bottlenecks, HSBC sees room for “low- to mid-single-digit” growth in European auto sales in 2024e/25e (see [European Autos – The pressure is on, but it’s costs not prices](#), 10 August 2023).

In its latest market review at the end of November 2023, ACEA said it expected a 2.5% rise in EU new car sales in 2024, slowing down from estimated 12% growth in 2023. The ACEA’s new 2023 forecast (up from 5% growth forecast back in January 2023) of c10.4m units will be nearly 20% below the record 2019 levels, compared to all-time-high market levels reached in Türkiye in 2023. Accordingly, despite the muted growth, our outlook for export volumes is better than for the domestic market in 2024.

New car sales growth



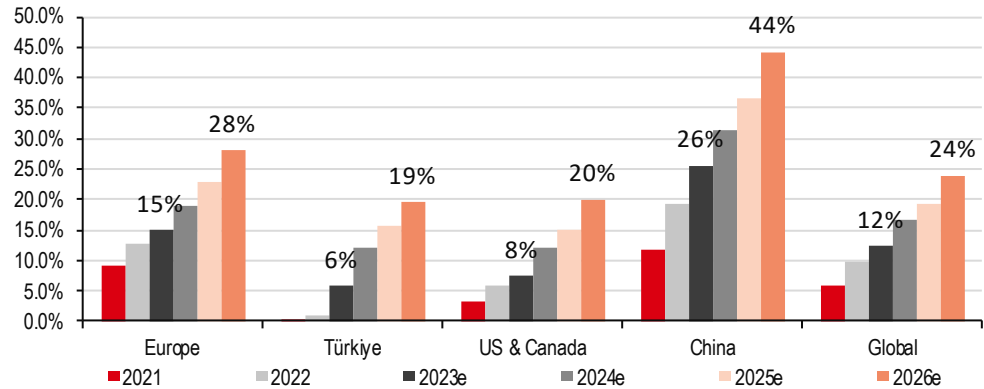
Source: ACEA, ODD, HSBC estimates
 Note: 2023 Türkiye growth figure is actual.

Electrification roadmap

Last year saw BEV penetration in Türkiye jump exponentially from only 1.3% of total new car sales in 2022, to 7.5% (5.9% including LCVs). This meant more than ninefold increase in sales volumes from 7.7k units in 2022, to 72.2k units in 2023. The debut of the locally produced TOGG (Türkiye’s national all-electric car), as well as Tesla-Türkiye (official online sales from April), in 2023 had a major role in propelling volumes last year. The two models (TOGG T10x and Tesla Model Y) accounted for 44% of total BEV sales in the market. Last year also saw BEV sales getting closer to hybrid (HEV and PHEV) car sales (72k vs 105k), a trend that we expect to see continue, with BEV sales likely closing the gap with hybrid car sales in 2024e.

Türkiye still notably lags EV penetration rates in Europe (HSBC 2023e: c15%) and globally (HSBC 2023e: c12%) in total new LV sales. In the next three years, we expect Türkiye to catch up with global penetration levels (c19% by 2026e) and narrow the gap with Europe (28% by 2026e).

EV penetration rates (light vehicles)



Source: ODD, EV-Volumes, HSBC estimates

Electrification commitments

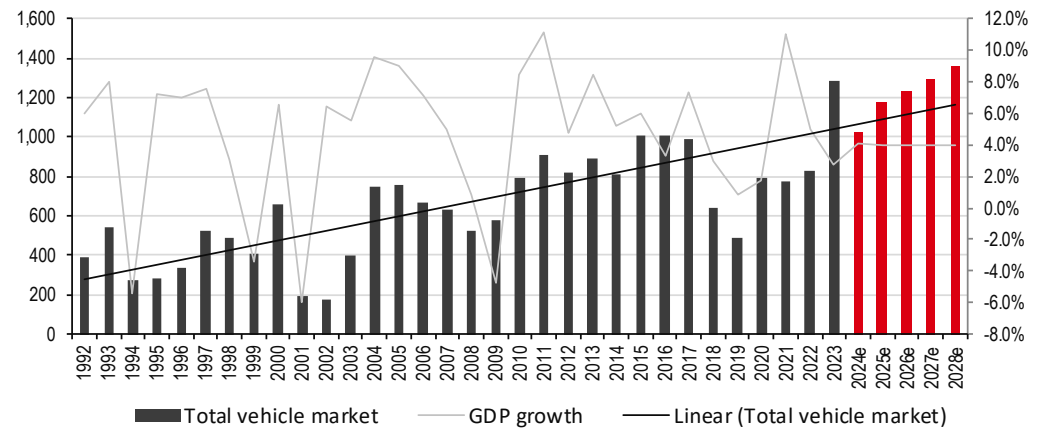
OEM	OEM brand	2022	Version	Interim target			Long-term target		
				Version	Year	Version	Year	Version	Year
Ford	Ford Europe PC	3%	BEV	100%	BEV or PHEV	Mid-2026	100%	BEV	2030
	Ford Europe CVs	0%	BEV	zero emission option for full range	BEV or PHEV	2024	Two-thirds of sales	BEV or PHEV	2030
Stellantis	Stellantis Europe	11%	BEV	46%	BEV	2028	100%	BEV	2030
	Fiat Europe	14%	BEV	40%	BEV	2028	100%	BEV	2027
Volkswagen Group	VW Group Europe	11%	BEV	46%	BEV	2028	60%	BEV	2030
	VW Brand Europe	11%	BEV	30%	BEV	2028	80%	BEV	2030

Source: HSBC Research, company sources

Long-term outlook

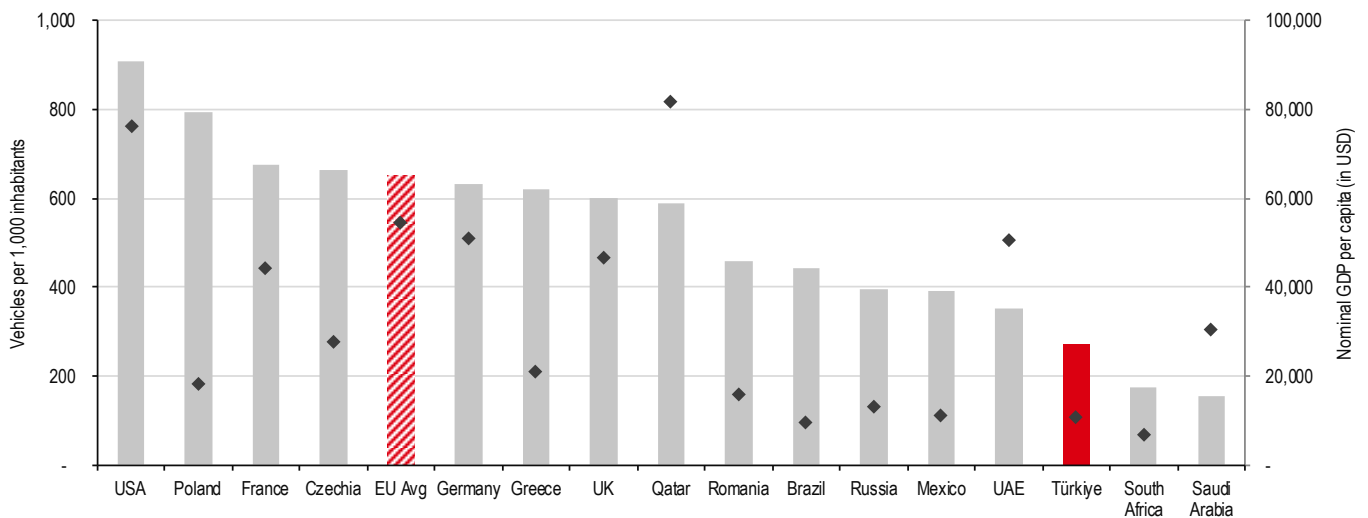
Over the past 30 years (1992-2023), total vehicle sales in Türkiye followed a highly volatile pattern but the general long-term trend was up. Years of major demand downturns, such as in 1994, 2001, 2008 and 2018, when economic crises hit GDP growth, were usually followed by a full recovery in the following two to three years, so that the long-term uptrend was sustained. The past 30-year statistical correlation between vehicle sales volume growth and GDP growth, at around 0.5, does not appear strong. This, in our view, is mainly due to automotive industry-specific factors, including changes in taxation schemes or incentives provided (such as scrappage bonuses) that might have distorted the correlation. The demand surge in 2023 followed a five-year period of pressure (caused by the weak macro environment in 2018-19, followed by COVID-19-related disruptions) and put the trend back on its long-term trajectory. In that respect, we see the market growing towards the 1.3-1.4m unit level by 2028.

Turkish vehicle market (x000 units) vs GDP growth



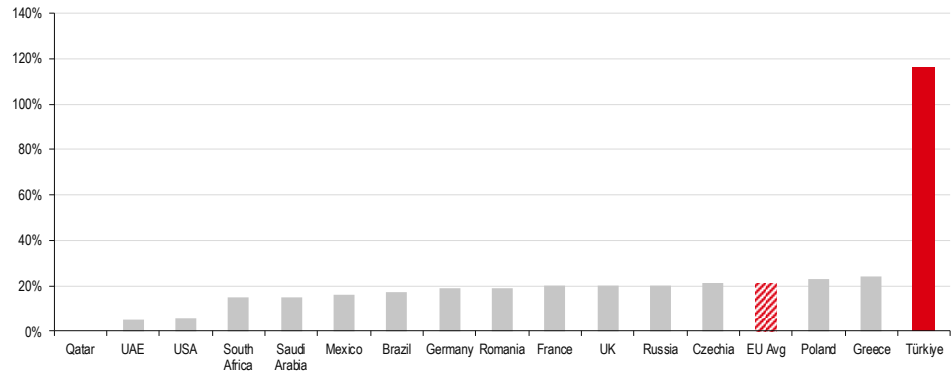
Source: OSD, HSBC estimates

Vehicle ownership rates vs GDP per capita (2022)



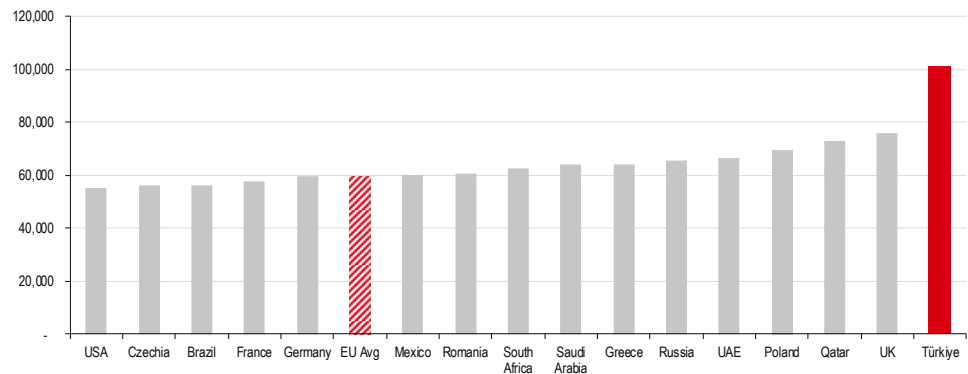
Source: ACEA, Turkstat, HSBC Research (web search)

New car sales tax rates



Source: HSBC, national regulators

Price of a Tesla Model Y Performance model (USD)



Source: HSBC, regional retailer data

Türkiye stands out as an underpenetrated market in terms of vehicle ownership rate (around 240 vehicles per 1,000 people and c170 for passenger cars only) relative to GDP per capita when compared to other developing countries on these metrics (see chart at the bottom of the previous page). While c170 cars per 1,000 people suggests ample room for the market to grow, we think developed market statistics reflect some saturation in ownership rates at certain levels, despite high GDP per capita and a point when, presumably, consumers have tapped into upper-end segments compared to developing markets such as Türkiye, where affordable cars constitute the vast majority of the vehicle parc. We highlight the following factors as significant barriers to higher ownership rates in the Turkish market:

- ◆ Extremely high taxes for new cars (currently, the cheapest car carries an 80% special consumption tax plus 20% VAT, resulting in a 116% cumulative tax on the factory price)
- ◆ High running costs (high gasoline and diesel prices, again due to the tax component and high ownership fees that are adjusted each year with inflation)
- ◆ High financing costs for new car purchases (auto loans have been scarce in the market over the past several years, and cash purchases are still favoured)

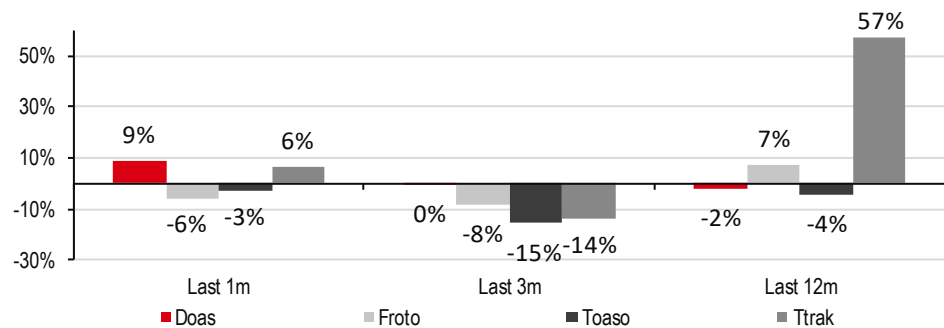
Stock views

Valuation multiples and dividend yields

At current share price	2024e			2025e			At our new target price	2024e			2025e		
	PE	EV/ EBITDA	Div yield	PE	EV/ EBITDA	Div yield		PE	EV/ EBITDA	Div yield	PE	EV/ EBITDA	Div yield
DOAS	3.5	2.1	14.3%	3.5	2.3	17.4%	DOAS	4.5	3.9	11.1%	4.5	3.6	13.5%
FROTO	5.8	6.2	12.1%	4.9	5.2	16.2%	FROTO	9.0	7.0	7.8%	7.7	5.2	10.4%
TOASO	6.1	5.3	8.1%	3.3	2.9	15.8%	TOASO	8.6	8.5	5.7%	4.7	4.0	11.2%
TTRAK	6.5	5.4	14.6%	5.7	4.6	15.9%	TTRAK	7.5	7.3	12.5%	6.6	6.4	13.6%

Source: HSBC estimates
Priced as at close of 4 January 2024

Share price performances (relative to BIST100)



Source: Refinitiv Datastream

Dogus Otomotiv (DOAS TI) – maintain Buy; cut TP to TRY320.00 (from TRY420.00)

As a pure domestic play, we see DOAS as fully exposed to local market dynamics and our expectation for a pullback in Turkish vehicle demand this year. DOAS saw its retail LV market share retreat by a slight 0.7ppt over the last year to 10.9% (based on 2023 ODD data, excluding the Skoda brand) and we project total retail unit LV sales of 110k units this year (excluding Scania sales), down from 134k in 2023. This indicates an 18% y-o-y contraction vs the 20% fall we expect for the whole Turkish market, with some support coming from accelerated sales of EVs. VW Group (Volkswagen Ord, VOW GR, EUR119.60, Hold) leads the EV market in Europe (with c20% market share), and we expect DOAS to benefit more visibly from this beginning this year with the launch of VW EV models.

Pricing should remain vibrant in the high inflation environment, but FX rates will also likely play a major role in a market where nearly two-thirds of LVs sold are imports. However, we would expect operating margins to start normalising this year as the supply-demand imbalance post COVID-19 (excess demand) likely reverses. We have assumed DOAS's EBITDA margin will fall from c20% in 2023e, to 14.0% in 2024e and 10.0% in 2025e (2017-21 average was c7%).

Critically, DOAS will be fully consolidating its sister real estate company, Dogus REIT (DGGYO TI, TRY30.20, not covered), starting with full-year 2023 results, which will make it a more complicated and hybrid business. Consolidation of the real estate operation should weaken the net cash position and undermine the pure-auto-play status of the company, which we factor into our valuation via a risk premium applied to the stock beta, pushing our valuation down despite our higher estimates for 2024-25. DOAS generates significant profits from ancillary operations, including vehicle inspection unit Tuvturk. Tuvturk's 20-year monopoly of inspection rights in Türkiye comes to an end in 2027, which also reduces the value we attach to the unit each year (DCF value for the remaining four years).

We think DOAS offers an attractive dividend yield; we assume a payout of 29% from 2023e profits resulting in a 10.5% yield (of which 6.9% was already paid in 2023 as advance dividends). Despite the negative earnings growth we project this year, the stock trades at what we view as an attractive 2024e PE of 3.5x and EV/EBITDA of 2.1x. We note that our financial projections do not yet incorporate the real estate unit as we wait for full-year 2023 results to gain some clarity on the consolidation effects.

DOAS to consolidate Dogus REIT from 4Q 2023 onwards

9M 2023 (TRYm)	Dogus REIT	DOAS	REIT vs DOAS
Total assets	5,155	46,401	11%
Equity	2,351	25,590	9%
Cash	28	9,612	0%
Debt	2,653	6,787	39%
Net cash	-2,625	2,825	-93%

Source: Company data

DOAS – target price components

TRY	Old	New	Chg	% share
Core business	340.5	268.0	-21%	84%
Vehicle inspection	9.9	9.7	-2%	3%
Stake value in participations	34.4	34.4	0%	11%
Shares bought back	35.2	8.0	-77%	2%
Total (target price)	420.0	320.0	-24%	100%

Source: HSBC estimates

Ford Otosan (FROTO TI) – upgrade to Buy; raise TP to TRY1,165.00 (from TRY1,025.00)

We upgrade FROTO to Buy (from Hold) with a higher target price of TRY1,165 driven by our upward forecast revisions (2024e net profit by 9%, 2025e net profit by 11%). With an export share c85% in total sales volumes and c80% in total revenues, we view FROTO as offering a better volume outlook than peers in 2024e. We see its total sales volume growing by 7% this year, driven by a 12% rise in exports (including sales from its Romanian plant) and a more limited 14% decline in its domestic volumes vs our 20% decline forecast for the overall Turkish market. Exports growth should be enabled by moderate demand growth in Europe, as well as FROTO's rising production capacity, especially with the all-new custom CV model, which will also be launched under the VW branding (Transporter) in 2024.

We expect FROTO's total production capacity, including the Craiova plant in Romania, to exceed 900k units by the end of this year, from slightly over 700k at the end of 2023. Strong exporter status and a leading position in electrification remain the key investment positives, while a high-investment cycle (around USD1bn in 2024e, similar to 2023) and dilution in operating margins look to be the main challenges, the latter being an industry-wide expectation. With upward revisions, we expect EBITDA margin to decline from 11.9% in 2023e to 10.0% in 2024e (vs our previous forecast declines of 10.1% and 9.4%) but absolute EBITDA and net profit to grow by 28% and 23%, respectively.

Our forecasts put the stock on 5.8x 2024e PE and 6.2x EV/EBITDA, compelling for a blue-chip industrial Turkish stock with export defensiveness, in our view. Also, we think the 2023e dividend yield (to be paid in 2024e) is attractive on our conservative payout assumption of 65% (83% last year), resulting in cTRY68.35 per share (cTRY44.00 paid last year).

Tofas (TOASO TI) – maintain Buy; cut TP to TRY310.00 (from TRY380.00)

TOASO has entered the new year with continued uncertainty regarding the acquisition and consolidation of the PSA Group's distribution and retail operations (Stellantis-Türkiye), as well as the absence of details on new models and a clear roadmap for electrification. On the first

point, the consolidation of the PSA Group brands (Citroen, DS, Opel, Peugeot) would create an operation with combined market share of 34% in Türkiye as of the end of 2023 (c16% Fiat plus c18% PSA), which has prompted the competition authority to take a deeper look, creating some uncertainty. We now assume Stellantis-Türkiye's consolidation from 2025 onwards as opposed to 2024 previously, and are therefore more conservative on the contribution we attribute in our TOASO valuation.

On the new models front, our knowledge is limited to the announcement back in March 2023 that an agreement was reached with Stellantis for exclusive rights to manufacture and distribute a new LCV model coded "K0" in Türkiye, planned for five brands that represent the Stellantis Group, with a target production launch in 2025. It was also agreed to extend the production life of the Tipo/Egea model for local distribution and exports until the end of 2025. In the current portfolio, the LCV model Doblo expired in 2023 (the model was discontinued for production in Türkiye), and the production of the Fiorino minivan model (Minicargo) will cease at the end of this year, if further extensions are not negotiated. This leaves us with a sluggish volume outlook for this year, domestic sales moving largely in line with market dynamics, and exports sliding even further in the full absence of the Doblo model. We incorporate the K0 model from 2025 based on our own investment and volume assumptions (starting with 100k production in 2025e, reaching 140k by 2028e).

Our TP declines due to a one-year shift out of the Stellantis-Türkiye consolidation, pushing our 2024e numbers down, as well as its lower contribution to our TOASO valuation. Our new TP now includes half of the total TRY46 per share value that we attach to the full consolidation of Stellantis-Türkiye – that is, TRY23 per share – as part of our new TP of TRY310 (vs TRY46 per share in our previous TP of TRY380).

Investment positives include a preference for TOASO models if consumers trade down in a contracting demand environment from more expensive cars; stronger operating margins in 2024e with the consolidation of Stellantis-Türkiye being delayed; potentially more generous dividend payments if the agreed EUR400m acquisition cost for Stellantis-Türkiye does not exit the company's accounts anytime soon; and positive developments catalysing the stock on the back of the immediate negative market reaction to the delay in the Stellantis-Türkiye acquisition. Since the announcement of the delay on 5 December 2023, TOASO shares have gone down by 9% in absolute TRY terms (vs DOAS +1%, FROTO -11%, TTRAK -1% in the same period).

Turk Traktor (TTRAK TI) – maintain Hold; cut TP to TRY800.00 (from TRY880.00)

TTRAK posted solid results in 3Q 2023 and 9M 2023 with all-time-high EBITDA margins of 28.4% and 24.5%, respectively, driven by strong demand and pricing in the local market. The Turkish tractor market grew by nearly 30% in the first nine months, and TTRAK achieved 26% growth in its domestic sales volumes.

We expect a strong finish to the year in terms of domestic volumes and profitability but anticipate a more difficult 2024; we see the tractor market pulling back by 20% (from 79k to 63k total units) as economic growth slows down, financing becomes scarce, and loan distribution likely more selective. Farmers continue to be offered attractive financing relative to market rates by key lender Ziraat Bank (not listed), with an annual interest rate of 22.5% as of January 2024 for locally produced tractors (which receive a 50% subsidy on the full rate of 45%), although up from a mere 5% (full rate of 10%) at the beginning of 2023 for new loans, moving in line with the direction of central bank policy rates.

While this offered noteworthy support for 2023 operations and performance, it is also a risk, in our view, given that more than 70% of tractor sales are being financed by Ziraat Bank at rates that are moving in line with policy rates. We are partly placated by the fact that policy rate hikes have seen their peak based on HSBC expectations. HSBC expects the CBRT to keep its

current policy rate of 42.5% (raised by 250bp from 40.0% in last year's final monetary policy meeting held in December) unchanged until end of 2024 (see [Global Economics](#), 3 January 2024). Yet, one unknown is whether Ziraat Bank will be as generous in lending as it has been in the past. Judging from the surging demand for tractors last year, it is possible that farmers might have exhausted most of the available loan quotas in 2023, considering also significant tractor price increases throughout the year but unchanged cap on tractor loans permitted per farmer (loans up to TRY1m per farmer qualify for interest rate subsidies).

TTRAK generates c65% of its volumes and c75% of its revenues from domestic sales (9M 2023), which are notably more profitable than exports. Therefore, profitability depends significantly on domestic volumes and pricing, and we think 2024 will offer challenges (supply finally catching up with demand and pricing becoming tougher). Assuming a 13% y-o-y contraction in total sales volumes this year (-20% for domestic, +3% for exports), we see the EBITDA margin declining from c26% in 2023 to c20% this year, with profitability posting muted growth (negative in real terms). We see dividends as attractive; we assume a full payout of 2023e earnings, resulting in DPS of TRY100 and a yield of 14.6%.

Forecast changes

Turkish market

For LVs, we project a weaker market of 1.0m units in 2024, albeit our revised estimate is 4% up from our previous forecast of 977k units. We continue to anticipate volumes and margin normalisation across the industry in 2024. The margin normalisation would be primarily driven by a 20% decline in high-margin domestic retail sales and a 7% increase in the low-margin export segment. Accordingly, we have factored in a 20% y-o-y contraction for LV sales in 2024e (from 15% previously), to be followed by a 15% recovery in 2025e (previously 12%). We have also introduced our 2026 estimate of 1.24m.

For tractors, we continue to anticipate a 20% decline in 2024e sales volumes due to the high dependency on key lender Ziraat Bank and the likelihood of higher pricing to match the current interest rate policy of the CBRT. More than 70% of all tractors sold in Turkiye are with Ziraat Bank financing support (source: TTRAK investor presentation). The key lender provides notably lower interest rate vs the market after incorporating a 50% subsidy but have raised its effective interest rate (full subsidy of 50% included) from 5% at the beginning of 2023 to 22.5% as of January 2024. This will likely impact tractor sales negatively, given also pull-forward effect in last year.

Dogus Otomotiv

Our forecast changes for DOAS are driven primarily by stronger volume growth and pricing resulting in improved profitability for 2023e which translates into a 157%/205%/168% rise in revenue/EBITDA/net profit over 2022. However, we expect EBITDA/net profit (albeit raised by 15%/20%, respectively, from our previous estimates) to decline by 19%/26% y-o-y in 2024e despite an anticipated rise in revenue of 16%. This is due to EBITDA margin contraction of 5.9ppt y-o-y. Our estimates do not incorporate Dogus REIT yet as we await the impact of the consolidation with the 4Q 2023 and 2023 results.

Ford Otosan

Our forecast revisions for FROTO suggest lower volumes, lagging the industry average. With an unchanged export ratio (including Romania) by volume of 82%, we remain optimistic about the prospects of the export business as FROTO is a major exporter that will likely benefit from the continued TRY depreciation. We believe that the company has not met its export target for 2023. However, we are confident that a robust domestic market and favourable pricing conditions have offset the shortfall, and we expect another strong quarterly financial

performance in 4Q. With lower-than-anticipated volumes, we bring down our revenue estimate for 2023e by 6%. This, combined with higher operational profitability, should result in a 92%/99%/98% y-o-y increase in revenue/EBITDA/net profit in 2023e. We anticipate the company to record revenue/EBITDA/profit growth of 52%/28%/23% in 2024e despite a marginal downward revision in our revenue and volume estimates.

Tofas

We have made significant changes to our estimates for TOAS, especially in 2024e, as we anticipate a delay in the merger of the Stellantis-Türkiye operations. We now anticipate the Stellantis consolidation to take place in 2025 (2024 before). This has resulted in our cutting our 2024e revenue/EBITDA/net profit forecasts by 35%/29%/26% and our raising our 2025 estimates by 3-4% across all three metrics. Our 2023 estimates remain broadly unchanged except for a minor 2% upwards revision in net profit, resulting in an increase of 57%/61%/115% y-o-y in revenue/EBITDA/net profit. We anticipate weaker operational profitability in 2024e resulting in a marginal net profit decline of 2% y-o-y. We expect 2025e to be a major year for the company given the anticipated full consolidation of the Stellantis operations, as this would create the largest LV company in Türkiye by market share. On the back of the merger, we forecast a 165%/97%/82% y-o-y uptick in revenue/EBITDA/net profit in 2025.

Turk Traktor

We have made minor cuts to our estimates for TTRAK, reflecting the declining demand and unfavourable financing environment. We have reduced our 2023e revenue/EBITDA/net profit estimates by 3% each, although we expect the company to close the year with revenue/EBITDA/net profit growth of 112%/255%/223%, respectively. We expect a slower 2024e due to the high 2023 base for the tractor market and currently high inflation and interest rates. We have cut our 2024e revenue/EBITDA/net profit estimates by 4%/4%/5%, respectively, driven by lower unit sales in the domestic market. We expect exports to marginally rise by 3% over the period.

Dogus Otomotiv: estimate changes

TRYm	2023e				2024e				2025e			
	old	new	new/old	y-o-y	old	new	new/old	y-o-y	old	new	new/old	y-o-y
Revenues	106,395	120,077	13%	157%	129,591	138,839	7%	16%	180,350	199,138	10%	43%
EBITDA	21,104	23,938	13%	205%	16,588	19,438	17%	-19%	17,133	19,914	16%	2%
margin	19.8%	19.9%	0.1%	3.1%	12.8%	14.0%	1.2%	-5.9%	9.5%	10.0%	0.5%	-4.0%
Net profit	18,362	20,970	14%	168%	12,753	15,482	21%	-26%	12,913	15,804	22%	2%
DPS (TRY)	29.21	25.98	-11%	97%	31.88	35.55	12%	37%	35.22	43.10	22%	21%
Total dividends	6,427	5,715	-11%	97%	7,014	7,822	12%	37%	7,748	9,482	22%	21%
Dividend payout	35%	29%	-6%	-8%	55%	51%	-4%	22%	60%	60%	0%	9%
Total unit sales*	120	141	17%	64%	102	112	10%	-20%	114	129	13%	15%
Total unit sales**	155	176	14%	68%	131	141	8%	-20%	147	162	10%	15%

Source: HSBC estimates. *Excluding Skoda brand sales. **Including Skoda brand sales.

Ford Otosan: estimate changes

TRYm	2023e				2024e				2025e			
	old	new	new/old	y-o-y	old	new	new/old	y-o-y	old	new	new/old	y-o-y
Revenue	352,473	330,488	-6%	92%	519,864	502,022	-3%	52%	716,031	709,746	-1%	41%
EBITDA	35,750	39,262	10%	99%	48,675	50,202	3%	28%	64,178	63,877	0%	27%
EBITDA margin	10.1%	11.9%	1.7%	0.4%	9.4%	10.0%	0.6%	-1.9%	9.0%	9.0%	0.0%	-1.0%
Net profit	28,202	36,901	31%	98%	41,725	45,398	9%	23%	48,085	53,257	11%	17%
DPS (TRY)	36.17	68.35	89%	55%	59.45	90.56	52%	32%	82.22	121.42	48%	34%
Total dividends	12,691	23,986	89%	55%	20,863	31,778	52%	32%	28,851	42,606	48%	34%
Dividend payout	45%	65%	20%	-18.0%	50%	70%	20%	5.0%	60%	80%	20%	10.0%
Unit sales (000)	657	624	-5%	31%	685	670	-2%	7%	756	753	0%	12%
Domestic	116	114	-2%	35%	101	98	-3%	-14%	112	108	-4%	11%
Export	541	510	-6%	31%	584	572	-2%	12%	644	645	0%	13%
Export share	82%	82%	-1%	0%	85%	85%	0%	4%	85%	86%	0%	0%
Exports from TR	337	315	-7%	6%	383	363	-5%	16%	434	428	-1%	18%
Romania sales	204	196	-4%	110%	201	208	4%	7%	209	217	4%	4%

Source: HSBC estimates

Tofas: estimate changes

TRYm	2023e				2024e				2025e			
	old	new	new/old	y-o-y	old	new	new/old	y-o-y	old	new	new/old	y-o-y
Revenue	102,435	102,776	0%	57%	193,414	125,999	-35%	23%	320,269	333,298	4%	165%
EBITDA	18,063	18,121	0%	61%	26,969	19,276	-29%	6%	36,764	37,962	3%	97%
EBITDA margin	17.6%	17.6%	0.0%	0.4%	13.9%	15.3%	1.4%	-2.3%	11.5%	11.4%	-0.1%	-3.9%
PBT	19,469	19,923	2%	133%	27,133	20,128	-26%	1%	35,256	36,664	4%	82%
PBT margin	19.0%	19.4%	0.4%	6.3%	14.0%	16.0%	1.9%	-3.4%	11.0%	11.0%	0.0%	-5.0%
Net profit	17,996	18,424	2%	115%	24,420	18,115	-26%	-2%	31,730	32,998	4%	82%
DPS (TRY)	12.60	11.94	-5%	87%	24.42	17.81	-27%	49%	44.42	34.70	-22%	95%
Total dividends	6,299	5,969	-5%	87%	12,210	8,905	-27%	49%	22,211	17,350	-22%	95%
Dividend payout	35%	32%	-2.6%	-5.0%	50%	49%	-0.8%	16.8%	70%	53%	-17.4%	3.4%
Unit sales (000)	260	262	1%	-3%	349	222	-36%	-15%	476	464	-2%	109%
Domestic (Tofas)	200	200	0%	34%	162	166	2%	-17%	185	190	3%	15%
Domestic (Stellantis)	0	0	-	-	132	0	-	-	152	169	11%	-
Export	60	62	3%	-49%	55	57	3%	-9%	139	105	-24%	86%
Export share	23%	24%	0%	-21%	25%	25%	0%	2%	43%	23%	-20%	-3%

Source: HSBC estimates

Turk Traktor: estimate changes

TRYm	2023e				2024e				2025e			
	old	new	new/old	y-o-y	old	new	new/old	y-o-y	old	new	new/old	y-o-y
Revenue	47,459	46,215	-3%	112%	60,957	58,456	-4%	26%	83,218	79,550	-4%	36%
EBITDA	12,454	12,090	-3%	255%	12,191	11,691	-4%	-3%	14,147	13,524	-4%	16%
margin	26.2%	26.2%	0%	10.6%	20.0%	20.0%	0%	-6.2%	17.0%	17.0%	0%	-3.0%
Net profit	9,886	9,583	-3%	223%	11,184	10,613	-5%	11%	13,029	12,130	-7%	14%
DPS (TRY)	88.91	100.00	12%	154%	100.59	100.00	-1%	0%	117.18	109.10	-7%	9%
Total dividends	8,897	10,006	12%	376%	10,065	10,007	-1%	0%	11,726	10,917	-7%	9%
Dividend payout	90%	104%	14%	34%	90%	94%	4%	-10%	0.90	90%	0%	-4%
Unit sales (000)	52.5	51.4	-2%	15%	45.7	44.8	-2%	-13%	47.7	46.7	-2%	4%
Domestic	36.5	35.1	-4%	28%	29.2	28.1	-4%	-20%	30.7	29.5	-4%	5%
Export	16.0	16.2	1%	-5%	16.5	16.7	1%	3%	17.0	17.2	1%	3%
Export share	31%	32%	1%	-7%	36%	37%	1%	6%	36%	37%	1%	0%
Turkish tractor demand (x000 units)	79.0	79.0	0%	18%	63.2	63.2	0%	-20%	66.4	66.4	0%	5%

Source: HSBC estimates

Valuation and risks

	Valuation	Risks
Dogus Otomotiv DOAS TI Buy	<p>Current price: TRY248.00</p> <p>Target price: TRY320.00</p> <p>Up/downside: +29.0%</p> <p>We value DOAS using a sum-of-the-parts approach (see table on page 10).</p> <p>For the core business and the vehicle inspection business (TuvTurk), our DCF models continue to assume a cost of equity of 26.5% (before beta adjustment) based on a 3.5% risk-free rate (from 21.0%), a 9.0% equity risk premium (from 5.5%) and an adjustment factor of 14.0% for Türkiye. Our changes reflect HSBC assumptions for Türkiye. We get a cost of equity of 28.4% after incorporating a stock beta of 1.23 (from 0.80, based on Bloomberg's adjusted beta and our further adjustment factor of 50% reflecting our view that the consolidation of the real estate unit will likely weaken the company's net cash position and undermine its pure-auto-play status) and cost of TRY debt of 35% (unchanged), resulting in an overall WACC of 28.3% (from 26.1%). We assume debt:equity of 25:75 (unchanged) and terminal growth of 15% (unchanged).</p> <p>Among participations and JVs, we include listed company Dogus REIT (DGGYO TI, TRY30.20, not covered) in our SOTP at the acquisition cost of TRY5.1bn (or TRY93.65 per share) and for the rest (joint ventures, including consumer finance company VDTEF), we continue to use the reported book values discounted by 50% (unchanged).</p> <p>An increased WACC along with positive estimate changes for 2023-25e lead to our target price of TRY320 (from TRY420). Our revised target price implies 29.0% upside, and we retain our Buy rating.</p>	<p>Downside risks: (i) weaker-than-expected Turkish vehicle demand and market share performance by DOAS than we assume; (ii) major currency volatility making pricing difficult; stronger competition than we expect, leading to margin erosion; (iii) unfavourable changes in the taxation of new vehicle sales in Türkiye; (iv) supply chain/production problems causing vehicle availability problems; (v) weaker-than-expected pricing support from OEMs, such as Volkswagen AG; and (vi) potential overhang from a decision to sell shares bought back in the market.</p>
Ford Otosan FROTO TI Upgrade to Buy	<p>Current price: TRY750.00</p> <p>Target price: TRY1,165.00</p> <p>Up/downside: +55.3%</p> <p>Our DCF-based target price of TRY1,165 (from TRY1,025) implies a cost of equity (before beta adjustment) of 26.5% based on a 3.5% risk-free rate (from 21.0%), a 9.0% equity risk premium (from 5.5%) and an adjustment factor of 14.0% for Türkiye. We assume an unlevered company beta of 0.93 (unchanged, reflecting the latest Bloomberg adjusted beta) and blended cost of debt of 30% (unchanged), resulting in an overall WACC of 24.7% (unchanged), with a debt:equity ratio of 60:40 (from 69:31). We assume a terminal growth rate of 15% (unchanged).</p> <p>Positive changes in our WACC computation coupled with minor downward revisions in our 2023-25 estimates have resulted in a marginal increase in our target price. Our revised target price implies 55.3% upside, and we therefore upgrade FROTO to Buy from Hold.</p>	<p>Downside risks: (i) weaker-than-expected domestic and export demand, especially for LCVs; (ii) tougher pricing and market share competition in Türkiye than expected, putting pressure on domestic margins; (iii) lower-than-expected cash dividend distribution; (iv) higher-than-expected raw material prices, putting pressure on domestic margins; sharp currency changes; (v) any tax hikes on auto sales that affect company sales negatively; and (vi) supply chain/production-related problems.</p>

	Valuation	Risks
<div style="background-color: #444; color: white; padding: 5px; margin-bottom: 5px;"> Tofas TOASO TI </div> <div style="background-color: #eee; padding: 5px;"> Buy </div>	<p>Current price: TRY220.00</p> <p>Target price: TRY310.00</p> <p>Up/downside: +40.9%</p> <p>Our DCF-based target price of TR310 (from TRY380) implies a cost of equity (before beta adjustment) of 26.5%, driven by a 3.5% risk-free rate (from 21.0%), a 9.0% equity risk premium (from 5.5%) and an adjustment factor of 14.0% for Türkiye. We assume an unlevered company beta of 0.98 (unchanged) and blended cost of debt of 35% (unchanged) for an overall WACC of 26.8% (from 26.9%), with a debt:equity ratio of 28:72 (unchanged). We assume a terminal growth rate of 15% (unchanged).</p> <p>We continue to incorporate Stellantis-Türkiye operations into our valuation. However, due to the prolonged competition investigation on the envisaged transaction, we now assume consolidation starting in 2025 (vs 2024 previously) and cut our fair value for that operation by 50% to TRY23.00 per share from TRY46.00 per share previously (based on a DCF valuation with the same WACC assumptions as for Tofas), resulting in 7.4% of our new TP of TRY310, after deducting the agreed acquisition cost of EUR400m.</p> <p>Our new target price for Tofas is TRY310.00, down from TRY380.00 previously, due to lower 2024 estimates and a lower fair value that we assume from Türkiye-Stellantis. Our target price implies 40.9% upside, and we maintain our Buy rating.</p>	<p>Downside risks: (i) weaker-than-expected Turkish and European vehicle markets; (ii) tougher pricing and market share competition in Türkiye than expected, putting pressure on domestic margins; (iii) lower-than-expected cash dividend distribution; (iv) higher raw material prices, putting pressure on domestic margins; (v) sharp currency changes; (vi) any tax hikes on auto sales that affect company sales negatively; (vii) supply chain/production problems; (viii) a further delay in the Stellantis merger beyond 2024 or the deal getting cancelled due to a violation of competition rules; and (ix) weaker-than-expected contract terms for new generation vehicles (i.e. notably lower take-or-pay volume guarantees and/or profit mark-up compared with the current contracts).</p>
<div style="background-color: #444; color: white; padding: 5px; margin-bottom: 5px;"> Turk Traktor TTRAK TI </div> <div style="background-color: #eee; padding: 5px;"> Hold </div>	<p>Current price: TRY685.50</p> <p>Target price: TRY800.00</p> <p>Up/downside: +16.7%</p> <p>Our DCF-based target price of TRY800 (from TRY880) implies a cost of equity (before beta adjustment) of 26.5%, driven by a 3.5% risk-free rate (from 21.0%), a 9.0% equity risk premium (from 5.5%) and an adjustment factor of 14.0% for Türkiye. We assume an unlevered company beta of 0.91 (from 0.90), blended cost of debt of 35% (unchanged) and debt:equity of 30:70 (from 20:80), which results in a WACC of 26.4% (unchanged). We assume a terminal growth rate of 15% (unchanged). Slightly negative forecast changes result in our lower target price.</p> <p>Our revised target price implies 16.7% upside. We maintain our Hold rating due to our earnings outlook likely turning more negative as 2024 unfolds.</p>	<p>Upside risks: (i) any major rise in agricultural production (owing to economic/climate conditions); (ii) stronger-than expected state subsidies for agriculture and tractor purchases; (iii) weaker competition in the domestic market, resulting in higher market share/margins; (iv) strengthening of credit conditions; and (v) faster than-expected land consolidation in Türkiye (as this would impact the pace of mechanisation in the agricultural industry).</p> <p>Downside risks: (i) any major fall in agricultural production (due to economic/climate conditions such as floods or draughts); (ii) weaker-than-expected state subsidies for agriculture and tractor purchases; (iii) stronger competition in the domestic market, resulting in lower market share/margins; (iv) any sanctions against Türkiye-originated tractor imports; (v) worsening of credit conditions; (vi) supply chain/production problems; and (vii) slower-than-expected land consolidation in Türkiye (as this would impact the pace of mechanisation in the agricultural industry).</p>

Priced at 4 January 2024
 Source: HSBC estimates

Financials & valuation: Dogus Otomotiv

Buy

Financial statements

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Profit & loss summary (TRYm)				
Revenue	46,781	120,077	138,839	199,138
EBITDA	7,853	23,938	19,438	19,914
Depreciation & amortisation	72	567	14	-810
Operating profit/EBIT	7,925	24,505	19,452	19,104
Net interest	-680	-3,191	-2,669	-2,604
PBT	8,521	25,925	19,908	19,813
HSBC PBT	8,521	25,925	19,908	19,813
Taxation	-673	-4,893	-4,380	-3,963
Net profit	7,824	20,970	15,482	15,804
HSBC net profit	7,824	20,970	15,482	15,804
Cash flow summary (TRYm)				
Gross operational cash flow	3,940	7,811	8,199	5,959
Changes in working capital	-1,219	-1,700	-3,187	-3,792
Net operational cash flow	-1,171	-6,038	-3,138	-3,744
Capital expenditures (net)	-2,150	-5,750	-5,715	-7,822
Dividend inc (from equity investees)	-2,424	-149	-1,664	4,316
Net operational FCF	2,769	1,773	5,061	2,216
Net interest paid in cash	-645	-1,223	-1,567	-1,533
FCF before dividends	2,275	5,537	7,450	4,528
Dividends	-2,150	-5,750	-5,501	-7,701
FCF after dividends	125	-213	1,949	-3,173
Balance sheet summary (TRYm)				
Intangible fixed assets	155	444	1,048	1,675
Tangible fixed assets	2,166	4,725	7,604	11,137
Current assets	13,297	32,025	41,552	52,082
Cash & others	5,400	10,176	13,619	10,303
Total assets	20,665	48,956	62,374	78,376
Operating liabilities	6,364	15,605	18,013	26,119
Gross debt	2,595	7,221	9,000	10,000
Net debt	-2,805	-2,955	-4,619	-303
Shareholders' funds	11,669	26,046	35,249	42,123
Invested capital	3,854	11,413	18,573	28,472

Ratio, growth and per share analysis

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Y-o-y % change				
Revenue	92.5	156.7	15.6	43.4
EBITDA	230.3	204.8	-18.8	2.5
Operating profit	156.2	209.2	-20.6	-1.8
PBT	187.0	204.3	-23.2	-0.5
HSBC EPS	235.6	168.0	-26.2	2.1
Ratios (%)				
Revenue/IC (x)	15.7	15.7	9.3	8.5
ROIC	233.5	248.5	96.5	63.4
ROE	97.7	111.2	50.5	40.9
ROA	56.3	68.8	32.5	26.0
EBITDA margin	16.8	19.9	14.0	10.0
Operating profit margin	16.9	20.4	14.0	9.6
EBITDA/net interest (x)	11.6	7.5	7.3	7.6
Net debt/equity	-24.0	-11.3	-13.1	-0.7
Net debt/EBITDA (x)	-0.4	-0.1	-0.2	-0.0
CF from operations/net debt	-140.4	-264.3	-177.5	-1,968.6
Per share data (TRY)				
EPS Rep (diluted)	35.56	95.32	70.37	71.84
HSBC EPS (diluted)	35.56	95.32	70.37	71.84
DPS	13.18	25.98	35.55	43.10
Book value	53.04	118.39	160.22	191.47

Valuation data

Year to	12/2022a	12/2023e	12/2024e	12/2025e
EV/sales	1.0	0.4	0.3	0.2
EV/EBITDA	6.1	1.8	2.1	2.3
EV/IC	12.4	3.7	2.2	1.6
PE*	7.0	2.6	3.5	3.5
PB	4.7	2.1	1.5	1.3
FCF yield (%)	5.1	3.2	9.3	4.1
Dividend yield (%)	5.3	10.5	14.3	17.4

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2022a	Governance Indicators	12/2022e
GHG emission intensity*	4.6	No. of board members	6
Energy intensity*	14.7	Average board tenure (years)	9.8
CO ₂ reduction policy	Yes	Female board members (%)	33.3
Social Indicators		12/2022a	
Employee costs as % of revenues	3.3	Board members independence (%)	33.3
Employee turnover (%)	12.4		
Diversity policy	Yes		

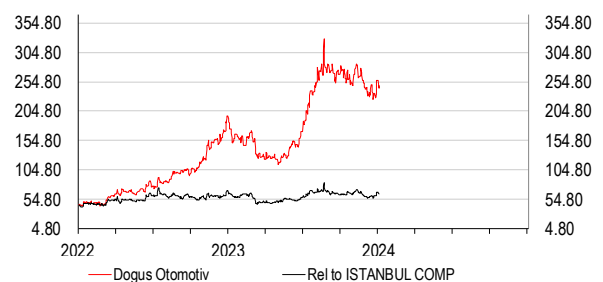
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	248.00	Free float	15%
Target price (TRY)	320.00	Sector	Autos
RIC (Equity)	DOAS.IS	Country/Region	Türkiye
Bloomberg (Equity)	DOAS.TI	Analyst	Cenk Orcan
Market cap (USDm)	1,834	Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 04 Jan 2024

Financials & valuation: Ford Otosan

Buy

Financial statements

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Profit & loss summary (TRYm)				
Revenue	171,797	330,488	502,022	709,746
EBITDA	19,727	39,262	50,202	63,877
Depreciation & amortisation	-587	2,609	-512	-2,583
Operating profit/EBIT	19,140	41,871	49,691	61,294
Net interest	-3,517	-6,727	-8,042	-12,434
PBT	15,623	35,144	41,649	48,860
HSBC PBT	15,623	35,144	41,649	48,860
Taxation	2,991	1,757	3,748	4,397
Net profit	18,614	36,901	45,398	53,257
HSBC net profit	18,614	36,901	45,398	53,257
Cash flow summary (TRYm)				
Gross operational cash flow	20,756	42,336	44,242	48,491
Changes in working capital	-14,202	-22,586	-32,584	-25,993
Net operational cash flow	-14,202	-22,586	-32,584	-25,993
Capital expenditures (net)	-6,562	-15,444	-23,986	-31,778
Net operational FCF	6,554	19,751	11,658	22,499
Net interest paid in cash	-349	-602	-1,649	-4,523
FCF before dividends	6,205	18,868	9,618	17,572
Dividends	-6,562	-15,444	-23,752	-31,504
FCF after dividends	-357	3,424	-14,133	-13,932
Balance sheet summary (TRYm)				
Intangible fixed assets	7,115	9,944	13,403	16,084
Tangible fixed assets	28,423	57,060	92,520	126,701
Current assets	55,125	112,700	149,163	193,004
Cash & others	10,115	31,559	30,264	31,714
Total assets	96,052	185,109	260,507	341,228
Operating liabilities	40,655	77,792	114,960	155,893
Gross debt	31,318	65,581	86,174	109,041
Net debt	21,203	34,022	55,910	77,327
Shareholders' funds	21,402	38,791	56,134	72,731
Invested capital	39,892	70,353	109,863	148,181

Ratio, growth and per share analysis

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Y-o-y % change				
Revenue	141.6	92.4	51.9	41.4
EBITDA	108.4	99.0	27.9	27.2
Operating profit	102.8	118.8	18.7	23.4
PBT	79.9	124.9	18.5	17.3
HSBC EPS	111.5	98.2	23.0	17.3
Ratios (%)				
Revenue/IC (x)	6.4	6.0	5.6	5.5
ROIC	78.6	69.6	55.0	48.0
ROE	118.0	122.6	95.6	82.7
ROA	44.3	36.8	28.2	24.7
EBITDA margin	11.5	11.9	10.0	9.0
Operating profit margin	11.1	12.7	9.9	8.6
EBITDA/net interest (x)	5.6	5.8	6.2	5.1
Net debt/equity	99.1	87.7	99.6	106.3
Net debt/EBITDA (x)	1.1	0.9	1.1	1.2
CF from operations/net debt	97.9	124.4	79.1	62.7
Per share data (TRY)				
EPS Rep (diluted)	53.04	105.16	129.37	151.77
HSBC EPS (diluted)	53.04	105.16	129.37	151.77
DPS	44.01	68.35	90.56	121.42
Book value	60.99	110.54	159.97	207.26

Valuation data

Year to	12/2022a	12/2023e	12/2024e	12/2025e
EV/sales	1.6	0.9	0.6	0.5
EV/EBITDA	14.1	7.4	6.2	5.2
EV/IC	7.0	4.1	2.9	2.3
PE*	14.1	7.1	5.8	4.9
PB	12.3	6.8	4.7	3.6
FCF yield (%)	2.5	7.5	4.4	8.5
Dividend yield (%)	5.9	9.1	12.1	16.2

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2022a	Governance Indicators	12/2022e
GHG emission intensity*	14.6	No. of board members	12
Energy intensity*	94.3	Average board tenure (years)	6.0
CO ₂ reduction policy	Yes	Female board members (%)	25
Social Indicators	12/2022a	Board members independence (%)	16.7
Employee costs as % of revenues	1.5		
Employee turnover (%)	8.1		
Diversity policy	Yes		

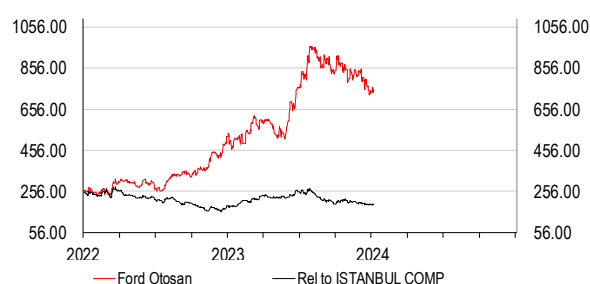
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	750.00	Free float	18%
Target price (TRY)	1165.00	Sector	Autos
RIC (Equity)	FROTO.IS	Country/Region	Türkiye
Bloomberg (Equity)	FROTO TI	Analyst	Cenk Orcan
Market cap (USDm)	8,845	Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 04 Jan 2024

Financials & valuation: Tofas

Buy

Financial statements

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Profit & loss summary (TRYm)				
Revenue	65,545	102,776	125,999	333,298
EBITDA	11,270	18,121	19,276	37,962
Depreciation & amortisation	-2,340	-2,435	-2,258	-3,466
Operating profit/EBIT	8,930	15,686	17,018	34,495
Net interest	-452	4,144	3,008	2,057
PBT	8,562	19,923	20,128	36,664
HSBC PBT	8,562	19,923	20,128	36,664
Taxation	0	-1,500	-2,013	-3,666
Net profit	8,562	18,424	18,115	32,998
HSBC net profit	8,562	18,424	18,115	32,998
Cash flow summary (TRYm)				
Gross operational cash flow	13,586	18,792	19,080	8,199
Changes in working capital	-889	-2,570	-22,591	-6,320
Net operational cash flow	-889	-2,570	-22,591	-6,320
Capital expenditures (net)	-3,200	-3,200	-5,969	-8,905
Net operational FCF	-8,604	-12,408	9,462	9,656
Net interest paid in cash	12,698	16,221	-3,511	1,879
FCF before dividends	13,375	18,952	-903	3,177
Dividends	-3,200	-3,200	-5,998	-8,962
FCF after dividends	10,175	15,752	-6,901	-5,785
Balance sheet summary (TRYm)				
Intangible fixed assets	1,640	2,087	6,092	7,391
Tangible fixed assets	5,351	5,241	20,063	22,932
Current assets	33,385	56,769	54,174	112,612
Cash & others	12,019	25,356	17,819	10,949
Total assets	40,376	64,097	80,329	142,936
Operating liabilities	21,000	27,837	29,292	64,776
Gross debt	6,960	7,889	9,814	12,600
Net debt	-5,059	-17,467	-8,005	1,651
Shareholders' funds	11,314	27,159	39,889	64,092
Invested capital	7,357	10,905	33,218	67,210

Ratio, growth and per share analysis

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Y-o-y % change				
Revenue	120.8	56.8	22.6	164.5
EBITDA	94.5	60.8	6.4	96.9
Operating profit	118.0	75.7	8.5	102.7
PBT	143.8	132.7	1.0	82.2
HSBC EPS	160.9	115.2	-1.7	82.2
Ratios (%)				
Revenue/IC (x)	7.7	11.3	5.7	6.6
ROIC	114.8	173.8	72.1	63.0
ROE	100.4	95.8	54.0	63.5
ROA	39.3	37.3	27.5	30.7
EBITDA margin	17.2	17.6	15.3	11.4
Operating profit margin	13.6	15.3	13.5	10.3
EBITDA/net interest (x)	24.9	-4.4	-6.4	-18.5
Net debt/equity	-44.7	-64.3	-20.1	2.6
Net debt/EBITDA (x)	-0.4	-1.0	-0.4	0.0
CF from operations/net debt	-268.5	-107.6	-238.3	496.6
Per share data (TRY)				
EPS Rep (diluted)	17.12	36.85	36.23	66.00
HSBC EPS (diluted)	17.12	36.85	36.23	66.00
DPS	6.40	11.94	17.81	34.70
Book value	22.63	54.32	79.78	128.18

Valuation data

Year to	12/2022a	12/2023e	12/2024e	12/2025e
EV/sales	1.6	0.9	0.8	0.3
EV/EBITDA	9.3	5.1	5.3	2.9
EV/IC	14.3	8.5	3.1	1.7
PE*	12.8	6.0	6.1	3.3
PB	9.7	4.1	2.8	1.7
FCF yield (%)	11.5	14.7	-3.2	1.7
Dividend yield (%)	2.9	5.4	8.1	15.8

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2022a	Governance Indicators	12/2022e
GHG emission intensity*	21.5	No. of board members	10
Energy intensity*	59.2	Average board tenure (years)	10.1
CO ₂ reduction policy	Yes	Female board members (%)	20
Social Indicators	12/2022a	Board members independence (%)	20
Employee costs as % of revenues	1.4		
Employee turnover (%)	12.3		
Diversity policy	Yes		

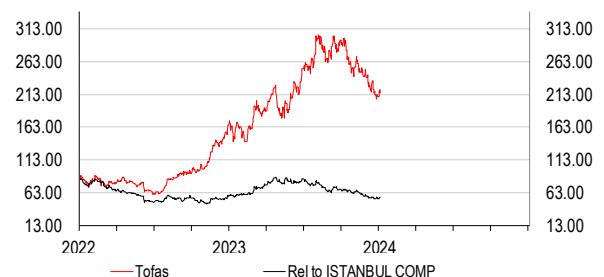
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	220.00	Free float	24%
Target price (TRY)	310.00	Sector	Autos
RIC (Equity)	TOASO.IS	Country/Region	Türkiye
Bloomberg (Equity)	TOASO TI	Analyst	Cenk Orcan
Market cap (USDm)	3,697	Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 04 Jan 2024

Financials & valuation: Turk Traktor

Hold

Financial statements

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Profit & loss summary (TRYm)				
Revenue	21,835	46,215	58,456	79,550
EBITDA	3,406	12,090	11,691	13,524
Depreciation & amortisation	-213	-361	-505	-642
Operating profit/EBIT	3,019	11,052	10,848	12,712
Net interest	-155	356	944	766
PBT	2,863	11,408	11,792	13,478
HSBC PBT	2,863	11,408	11,792	13,478
Taxation	108	-1,825	-1,179	-1,348
Net profit	2,971	9,583	10,613	12,130
HSBC net profit	2,971	9,583	10,613	12,130
Cash flow summary (TRYm)				
Gross operational cash flow	3,412	14,668	13,821	15,524
Changes in working capital	681	1,225	1,609	1,915
Net operational cash flow	687	1,225	1,609	1,915
Capital expenditures (net)	-1,200	-2,100	-10,006	-10,007
Net operational FCF	-589	-4,734	576	-744
Net interest paid in cash	4,099	15,893	15,431	17,439
FCF before dividends	1,617	7,185	8,650	10,191
Dividends	-1,200	-2,100	-10,006	-10,917
FCF after dividends	417	5,085	-1,356	185
Balance sheet summary (TRYm)				
Intangible fixed assets	622	1,126	1,780	2,544
Tangible fixed assets	1,025	1,865	2,384	2,974
Current assets	11,577	22,272	25,589	30,524
Cash & others	4,837	9,377	8,592	7,435
Total assets	13,796	25,938	30,478	36,857
Operating liabilities	6,113	11,270	15,050	21,145
Gross debt	3,788	3,594	3,385	1,484
Net debt	-1,049	-5,783	-5,207	-5,951
Shareholders' funds	3,638	10,791	11,732	13,887
Invested capital	2,273	4,615	6,110	7,464

Ratio, growth and per share analysis

Year to	12/2022a	12/2023e	12/2024e	12/2025e
Y-o-y % change				
Revenue	87.5	111.7	26.5	36.1
EBITDA	96.6	254.9	-3.3	15.7
Operating profit	113.6	266.1	-1.8	17.2
PBT	89.6	298.4	3.4	14.3
HSBC EPS	124.7	72.0	10.7	14.3
Ratios (%)				
Revenue/IC (x)	11.3	13.4	10.9	11.7
ROIC	171.6	286.0	187.7	170.8
ROE	104.4	132.8	94.2	94.7
ROA	37.7	54.2	41.2	38.5
EBITDA margin	15.6	26.2	20.0	17.0
Operating profit margin	13.8	23.9	18.6	16.0
EBITDA/net interest (x)	22.0	-33.9	-12.4	-17.7
Net debt/equity	-28.8	-53.6	-44.4	-42.9
Net debt/EBITDA (x)	-0.3	-0.5	-0.4	-0.4
CF from operations/net debt	-325.3	-253.6	-265.4	-260.9
Per share data (TRY)				
EPS Rep (diluted)	55.67	95.76	106.05	121.22
HSBC EPS (diluted)	55.67	95.76	106.05	121.22
DPS	39.35	100.00	100.00	109.10
Book value	68.17	107.84	117.24	138.78

Valuation data

Year to	12/2022a	12/2023e	12/2024e	12/2025e
EV/sales	3.1	1.4	1.1	0.8
EV/EBITDA	19.8	5.2	5.4	4.6
EV/IC	29.7	13.6	10.4	8.4
PE*	12.3	7.2	6.5	5.7
PB	10.1	6.4	5.8	4.9
FCF yield (%)	6.0	23.2	22.5	25.4
Dividend yield (%)	5.7	14.6	14.6	15.9

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2022a	Governance Indicators	12/2022e
GHG emission intensity*	21.7	No. of board members	12
Energy intensity*	53.2	Average board tenure (years)	3.7
CO ₂ reduction policy	Yes	Female board members (%)	8.3
Social Indicators		12/2022a	
Employee costs as % of revenues	1.8	Board members independence (%)	16.7
Employee turnover (%)	8		
Diversity policy	Yes		

Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	685.50	Free float	25%
Target price (TRY)	800.00	Sector	Autos
RIC (Equity)	TTRAK.IS	Country/Region	Türkiye
Bloomberg (Equity)	TTRAK.TI	Analyst	Cenk Orcan
Market cap (USDm)	2,305	Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 04 Jan 2024

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Cenk Orcan

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC and its affiliates, including the issuer of this report ("HSBC") believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 30 September 2023, the distribution of all independent ratings published by HSBC is as follows:

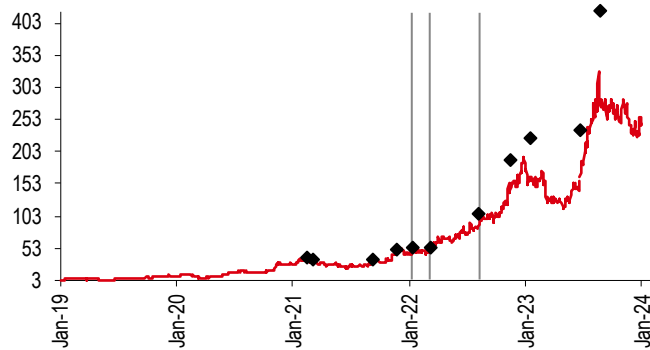
Buy	58%	(14% of these provided with Investment Banking Services in the past 12 months)
Hold	36%	(14% of these provided with Investment Banking Services in the past 12 months)
Sell	7%	(11% of these provided with Investment Banking Services in the past 12 months)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at <http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures>.

Share price and rating changes for long-term investment opportunities

Dogus Otomotiv (DOAS.IS) share price performance TRY Vs HSBC rating history



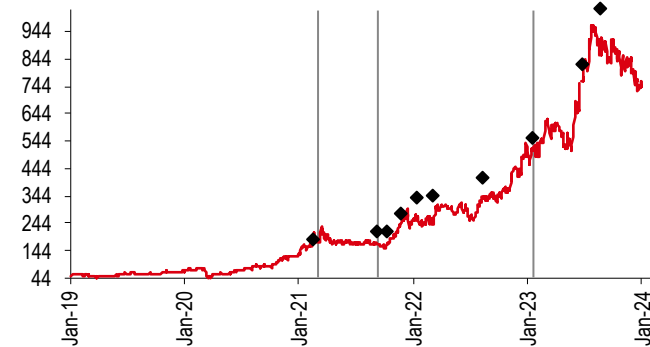
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Hold	Buy	13 Jan 2022	Cenk Orcan
Buy	Hold	08 Mar 2022	Cenk Orcan
Hold	Buy	11 Aug 2022	Cenk Orcan
Target price	Value	Date	Analyst
Price 1	35.80	17 Feb 2021	Cenk Orcan
Price 2	32.65	04 Mar 2021	Cenk Orcan
Price 3	33.00	09 Sep 2021	Cenk Orcan
Price 4	50.60	26 Nov 2021	Cenk Orcan
Price 5	53.70	13 Jan 2022	Cenk Orcan
Price 6	52.00	08 Mar 2022	Cenk Orcan
Price 7	105.00	11 Aug 2022	Cenk Orcan
Price 8	187.00	14 Nov 2022	Cenk Orcan
Price 9	221.00	19 Jan 2023	Cenk Orcan
Price 10	235.00	25 Jun 2023	Cenk Orcan
Price 11	420.00	23 Aug 2023	Cenk Orcan

Source: HSBC

Ford Otosan (FROTO.IS) share price performance TRY Vs HSBC rating history



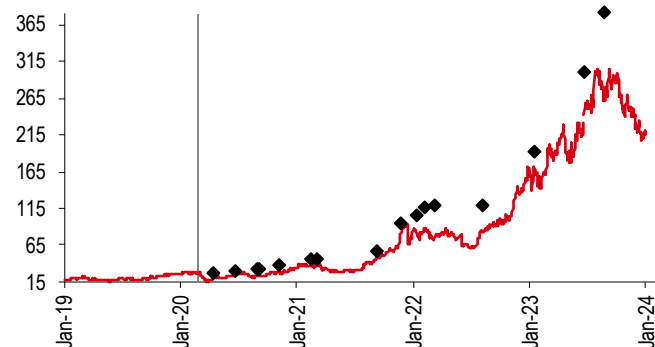
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Buy	Hold	04 Mar 2021	Cenk Orcan
Hold	Buy	09 Sep 2021	Cenk Orcan
Buy	Hold	19 Jan 2023	Cenk Orcan
Target price	Value	Date	Analyst
Price 1	184.20	17 Feb 2021	Cenk Orcan
Price 2	211.70	09 Sep 2021	Cenk Orcan
Price 3	211.40	11 Oct 2021	Cenk Orcan
Price 4	278.40	26 Nov 2021	Cenk Orcan
Price 5	333.30	13 Jan 2022	Cenk Orcan
Price 6	341.00	08 Mar 2022	Cenk Orcan
Price 7	409.40	11 Aug 2022	Cenk Orcan
Price 8	553.20	19 Jan 2023	Cenk Orcan
Price 9	820.00	25 Jun 2023	Cenk Orcan
Price 10	1025.00	23 Aug 2023	Cenk Orcan

Source: HSBC

Tofas (TOASO.IS) share price performance TRY Vs HSBC rating history



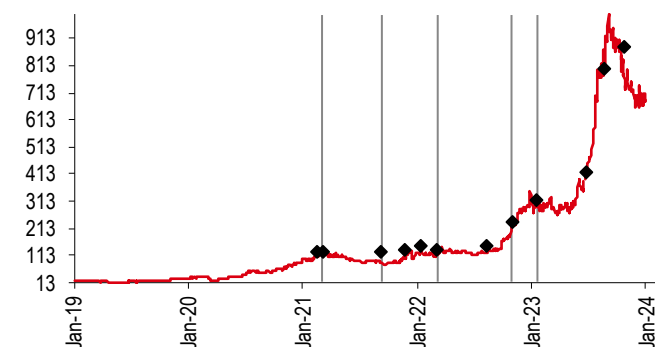
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Hold	Buy	26 Feb 2020	Cenk Orcan
Target price	Value	Date	Analyst
Price 1	24.80	13 Apr 2020	Cenk Orcan
Price 2	29.00	24 Jun 2020	Cenk Orcan
Price 3	30.90	28 Aug 2020	Cenk Orcan
Price 4	31.80	04 Sep 2020	Cenk Orcan
Price 5	35.50	04 Nov 2020	Cenk Orcan
Price 6	44.50	17 Feb 2021	Cenk Orcan
Price 7	44.70	04 Mar 2021	Cenk Orcan
Price 8	55.40	09 Sep 2021	Cenk Orcan
Price 9	93.10	26 Nov 2021	Cenk Orcan
Price 10	104.20	13 Jan 2022	Cenk Orcan
Price 11	114.90	08 Feb 2022	Cenk Orcan
Price 12	116.60	08 Mar 2022	Cenk Orcan
Price 13	117.20	11 Aug 2022	Cenk Orcan
Price 14	190.60	19 Jan 2023	Cenk Orcan
Price 15	300.00	25 Jun 2023	Cenk Orcan
Price 16	380.00	23 Aug 2023	Cenk Orcan

Source: HSBC

Turk Traktor (TTRAK.IS) share price performance TRY Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
Buy	Hold	04 Mar 2021	Cenk Orcan
Hold	Buy	09 Sep 2021	Cenk Orcan
Buy	Hold	08 Mar 2022	Cenk Orcan
Hold	Buy	31 Oct 2022	Cenk Orcan
Buy	Hold	19 Jan 2023	Cenk Orcan
Target price	Value	Date	Analyst
Price 1	123.89	17 Feb 2021	Cenk Orcan
Price 2	124.80	04 Mar 2021	Cenk Orcan
Price 3	119.09	09 Sep 2021	Cenk Orcan
Price 4	126.77	26 Nov 2021	Cenk Orcan
Price 5	147.57	13 Jan 2022	Cenk Orcan
Price 6	128.53	08 Mar 2022	Cenk Orcan
Price 7	144.69	11 Aug 2022	Cenk Orcan
Price 8	234.67	31 Oct 2022	Cenk Orcan
Price 9	314.67	19 Jan 2023	Cenk Orcan
Price 10	415.00	25 Jun 2023	Cenk Orcan
Price 11	800.00	23 Aug 2023	Cenk Orcan
Price 12	880.00	25 Oct 2023	Cenk Orcan

Source: HSBC

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Company	Ticker	Recent price	Price date	Disclosure
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FORD OTOSAN	FROTO.IS	750.00	04 Jan 2024	7
TOFAS	TOASO.IS	220.00	04 Jan 2024	6, 7
TURK TRAKTOR	TTRAK.IS	685.50	04 Jan 2024	-

Source: HSBC

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