

# KARDEMİR

Outperform

## Strong Free Cash Flow Despite Weaker EBITDA

Analysts: Ezgi Yilmaz

[ezgi.yilmaz@akyatirim.com.tr](mailto:ezgi.yilmaz@akyatirim.com.tr)

Omer Faruk Yuksel

[omerfaruk.yuksel@akyatirim.com.tr](mailto:omerfaruk.yuksel@akyatirim.com.tr)

Kardemir announced its 2023 financial results according to IAS29 adjustments, but did not disclose its unadjusted results; hence, all of the financial comparisons are in real terms. According to the financial results, the company reported a net income of TRY1.58bn (y/y: +43%). Revenue came in at TRY51.62bn (y/y: -5%). Kardemir reported an EBITDA of TRY3.21bn (y/y: -37%). EBITDA margin deteriorated to 6.2% from last year's 9.4% (2022 unadjusted: 15.8%). On the contrary, monetary gain was up 16% y/y, at TRY2.91bn. The company reported a deferred tax income of TRY1.88bn in 2023 (2022: TRY1.24bn), mostly attributable to IAS29 adjustments.

**Shipments up 15% y/y in 2023.** Kardemir reached a total shipment of 2.36 mn tons in 2023 (2022: 2.06 mn tons). 4Q23 shipments came in at 677k tons 24% higher than previous year's 548k tons.

**IAS29 adjustments weighed heavy on EBITDA/ton.** Kardemir's operating data imply an adjusted EBITDA of USD46/ton in 2023, USD38/ton lower (-45%) than previous year's USD84/ton. The steel-to-raw material & merchandise spread contracted by USD48/ton (-26%) and general production cost decreased by USD11/ton (-19%) y/y, while personnel expense rose by USD2/ton, and other cash costs were down USD1/ton in 2023. We would like to remind that the company's unadjusted EBITDA was USD126/ton in 2022, while 10-year average unadjusted EBITDA was at USD109/ton. As the company has not yet disclosed its unadjusted financial data for 2023, we do not have comparable data to measure its operating performance; however, our estimate is that the company's unadjusted EBITDA is USD110/ton in 2023.

**Adjusted operating cash flow came in at TRY4.57bn on better inventory management and collections.** Kardemir generated a TRY5.47bn of cash inflow from decreasing its net working capital in 2023.

**Adjusted Capex down 9% y/y in 2023.** Kardemir reported a capex of TRY1.44bn (USD49mn) in 2023, 9% lower than previous year.

**Net cash reached TRY2.55bn in 2023 (2022: TRY975mn of net debt).** Despite lower EBITDA, better net working capital management and lower capex contributed to the accumulation of a net cash reserve of TRY2.55bn in 2023.

**Comment:** While we expect a negative market reaction to the adjusted financial results, we estimate that unadjusted EBITDA for 2023 was delivered at USD110/ton, in line with our forecast. We expect to see details of the unadjusted financial results in the investor presentation, which we believe will be released today. We will update our model for inflation adjustments.

Bloomberg Ticker	KRDMD TI
Recommendation	Outperform
Target Price, TRY	44.00
Current Price, TRY	26.02
Upside	69%
Free Float	89%
Mcap, TRYmn	20,301
EV, TRYmn	18,553

Financial Data	2023	2024E	2025E	2026E
<b>Summary IFRS Financials</b>				
Revenue, TRYmn	51,621	60,281	65,182	70,166
EBITDA, TRYmn	3,210	9,335	11,354	13,037
Net Income, TRYmn	1,588	4,048	6,307	8,117

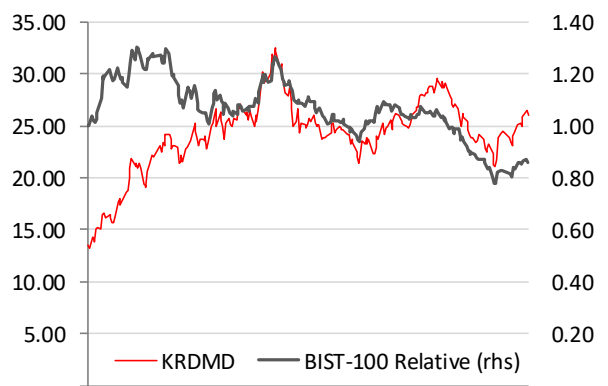
<b>Indebtedness</b>				
Net Debt, TRYmn	-2,555	3,075	1,623	513
Net Debt/EBITDA	-0.8	0.3	0.1	0.0

<b>Profitability</b>				
EBITDA Margin	6.2%	15.5%	17.4%	18.6%
Net Margin	3.1%	6.7%	9.7%	11.6%
Dividend Yield	1.0%	2.9%	5.5%	9.6%

<b>Growth</b>				
Revenue, y/y	88.4%	16.8%	8.1%	7.6%
EBITDA, y/y	-25.8%	190.8%	21.6%	14.8%
Net Income, y/y	-27.0%	154.9%	55.8%	28.7%

Valuation Data	2023	2024E	2025E	2026E
P/E	15.9	7.3	4.7	3.7
EV/EBITDA	7.0	3.5	2.8	2.3
EV/Sales	0.4	0.5	0.5	0.4

Stock Data	1M	3M	12M	YTD
Nominal Return	12.2%	-2.9%	75.4%	9.5%
BIST-100 Relative	2.1%	-18.1%	-19.3%	-18.6%
ADT, TRYmn	1,237	1,497	1,993	1,443



Period Overview	Summary Financials		
	Post-IAS29		
	12M23	12M22	y/y
(TRY mn)			
Revenue	51,621	54,168	(5%)
EBITDA	3,210	5,105	(37%)
EBITDA Margin	6.2%	9.4%	(320bps)
Monetary Gain / (Loss)	2,911	2,503	16%
Net Income	1,588	1,108	43%

Cumulative Financials									
Period	Net Sales (USDmn)	EBIT (USDmn)	EBITDA (USDmn)	NI (USDmn)	Gross Capex (USDmn)	D&A (USDmn)	Net Capex (USDmn)	NWC (USDmn)	Shipments (k tons)
<b>Unadjusted</b>									
12M13	952	123	173	53	254	50	204	272	1,555
12M14	1,000	183	241	151	295	58	238	352	1,733
12M15	819	41	78	(8)	215	37	177	91	1,935
12M16	773	62	104	(41)	69	42	28	169	2,064
12M17	1,089	163	201	69	35	38	(3)	98	2,326
12M18	1,158	336	366	169	75	30	44	223	2,199
12M19	1,071	79	115	14	96	35	61	46	2,243
12M20	1,072	146	178	9	49	32	17	(66)	2,372
12M21	1,657	521	548	432	33	28	6	(99)	2,301
12M22	1,652	240	261	131	57	21	36	132	2,065
<b>Average</b>	<b>1,124</b>	<b>189</b>	<b>226</b>	<b>98</b>	<b>118</b>	<b>37</b>	<b>81</b>	<b>122</b>	<b>2,079</b>
<b>Adjusted</b>									
12M22	1,843	122	174	38	54	51	3	262	2,065
12M23	1,756	54	109	54	49	55	(6)	117	2,365
Unit Economics									
Period	Net Sales (USD/ton)	EBIT (USD/ton)	EBITDA (USD/ton)	NI (USD/ton)	Gross Capex (USD/ton)	D&A (USD/ton)	Net Capex (USD/ton)	NWC (USD/ton)	Shipments (k tons)
<b>Unadjusted</b>									
12M13	613	79	111	34	163	32	131	175	1,555
12M14	577	106	139	87	170	33	137	203	1,733
12M15	423	21	40	(4)	111	19	92	47	1,935
12M16	374	30	50	(20)	34	20	13	82	2,064
12M17	468	70	87	30	15	17	(1)	42	2,326
12M18	527	153	166	77	34	14	20	101	2,199
12M19	477	35	51	6	43	16	27	21	2,243
12M20	452	61	75	4	20	13	7	(28)	2,372
12M21	720	226	238	188	14	12	2	(43)	2,301
12M22	800	116	126	63	28	10	17	64	2,065
<b>Average</b>	<b>541</b>	<b>91</b>	<b>109</b>	<b>47</b>	<b>57</b>	<b>18</b>	<b>39</b>	<b>59</b>	<b>2,079</b>
<b>Adjusted</b>									
12M22	892	59	84	18	26	25	1	127	2,065
12M23	742	23	46	23	21	23	(3)	49	2,365

	Pre-IAS29 12M22	Post-IAS29 12M22	Post-IAS29 12M23
<b>Income Statement</b>			
<b>Revenues</b>	<b>27,397</b>	<b>54,168</b>	<b>51,621</b>
<b>Cost of Sales</b>	23,128	49,991	49,431
<b>Gross Profit</b>	<b>4,269</b>	<b>4,177</b>	<b>2,189</b>
Operating Expenses	290	578	602
<b>EBIT</b>	<b>3,979</b>	<b>3,599</b>	<b>1,587</b>
Depreciation & Amortization	345	1,506	1,623
<b>EBITDA</b>	<b>4,324</b>	<b>5,105</b>	<b>3,210</b>
Non-Operating Income / (Expense)	(1,445)	(310)	(1,477)
Other Operating Income / (Expense)	(1,129)	(1,249)	(4,628)
Profit / (Loss) from Equity Acc. Subsidiaries	25	18	42
Net Investment Income / (Expense)	187	417	52
Net Financial Income / (Expense)	(528)	(1,999)	146
Monetary Gain / (Loss)	-	2,503	2,911
<b>Profit Before Tax</b>	<b>2,533</b>	<b>3,289</b>	<b>111</b>
Tax Income / (Expense)	(359)	(2,181)	1,477
Current Corporate Tax Income / (Expense)	(453)	(932)	(411)
Deferred Tax Income / (Expense)	94	(1,249)	1,888
<b>Net Profit After Tax</b>	<b>2,174</b>	<b>1,108</b>	<b>1,588</b>
Profit After Taxes from Discontinued Operations	-	-	-
Minority Interest	(0)	(0)	(0)
<b>Net Profit</b>	<b>2,174</b>	<b>1,108</b>	<b>1,588</b>
<b>Growth (y/y)</b>			
	Pre-IAS29 12M22	Post-IAS29 12M22	Post-IAS29 12M23
Revenue	n.m.	n.m.	(4.7%)
Opex	n.m.	n.m.	4.1%
EBIT	n.m.	n.m.	(55.9%)
EBITDA	n.m.	n.m.	(37.1%)
Net Profit	n.m.	n.m.	43.3%
<b>Profitability &amp; Ratio Analysis</b>			
	Pre-IAS29 12M22	Post-IAS29 12M22	Post-IAS29 12M23
Gross Profit Margin	15.6%	7.7%	4.2%
Opex Margin	1.1%	1.1%	1.2%
EBIT Margin	14.5%	6.6%	3.1%
EBITDA Margin	15.8%	9.4%	6.2%
Effective Tax Rate	14.2%	66.3%	n.m.
Net Profit Margin	7.9%	2.0%	3.1%
Operating Cash Flow Margin	n.m.	n.m.	8.9%
Free Cash Flow Margin	n.m.	n.m.	6.1%
Operational Cash Flow / EBITDA	n.m.	n.m.	142.3%
Capex / Revenues	3.4%	2.9%	2.8%
Increase (Decrease) in WCR / Revenues	15.4%	17.5%	(10.6%)

	Pre-IAS29 12M22	Post-IAS29 12M22	Post-IAS29 12M23
<b>Cash Flow Statement</b>			
<b>Net Operating Cash Flow</b>	<b>(1,782)</b>	<b>(8,182)</b>	<b>4,570</b>
Earnings Before Adjustments	2,174	1,108	1,588
Depreciation & Amortisation	345	1,506	1,623
Change in Working Capital	(4,210)	(9,465)	5,474
Other Operating Cash Flow	(92)	(1,331)	(4,115)
<b>Net Investment Cash Flow</b>	<b>(760)</b>	<b>(1,186)</b>	<b>(1,400)</b>
Capital Expenditures	(944)	(1,594)	(1,448)
Other Investment Cash Flow	184	408	48
<b>Free Cash Flow</b>	<b>(2,543)</b>	<b>(9,368)</b>	<b>3,169</b>
<b>Cash from Financial Operations</b>	<b>(923)</b>	<b>(2,015)</b>	<b>(1,529)</b>
Change in Financial Debt	(820)	(1,356)	(1,387)
Dividends Paid	(902)	(2,053)	(358)
Other Financial Cash Flow	799	1,394	216
<b>Net Increase / (Decrease) in Cash</b>	<b>(3,465)</b>	<b>(11,383)</b>	<b>1,640</b>
	Pre-IAS29 12M22	Post-IAS29 12M22	Post-IAS29 12M23
<b>Balance Sheet</b>			
<b>Current Assets</b>	<b>16,421</b>	<b>30,693</b>	<b>25,215</b>
Cash and Cash Equivalents	1,891	3,116	4,757
Short-Term Financial Assets	2	4	1
Short-Term Trade Receivables	4,192	6,907	5,157
Inventories	7,945	16,724	12,283
Other Current Assets	2,391	3,942	3,017
<b>Long Term Assets</b>	<b>10,219</b>	<b>34,953</b>	<b>34,751</b>
Long-Term Financial Assets	0	4	4
Investments with Equity Method	42	70	104
Tangible Fixed Assets	9,996	34,499	34,304
Intangible Fixed Assets	41	168	188
Other Long-Term Assets	140	211	149
<b>Total Assets</b>	<b>26,640</b>	<b>65,646</b>	<b>59,965</b>
<b>Short Term Liabilities</b>	<b>12,632</b>	<b>22,199</b>	<b>19,226</b>
Short-Term Financial Loans	1,146	3,250	1,805
Short-Term Trade Payables	7,657	12,617	10,834
Other Short-Term Liabilities	3,829	6,332	6,586
<b>Long Term Liabilities</b>	<b>2,546</b>	<b>6,841</b>	<b>3,895</b>
Long-Term Financial Loans	1,340	846	398
Other Long-Term Liabilities	1,207	5,995	3,497
<b>Equity</b>	<b>11,461</b>	<b>36,606</b>	<b>36,844</b>
Parent Share	11,461	36,606	36,844
Share Capital	1,140	1,140	1,140
Reserves and Other Equity Items	3,947	10,516	9,564
Retained Earnings / (Accumulated Losses)	4,200	23,842	24,551
Current Year Income / (Losses)	2,174	1,108	1,588
Minority	(0)	(0)	(0)
<b>Total Liabilities and Shareholders Capital</b>	<b>26,640</b>	<b>65,646</b>	<b>59,965</b>
Invested Capital	13,260	43,577	37,787
WCR	4,479	11,014	6,605
WCR / T12M Revenues	n.m.	n.m.	n.m.
WCR (Inc. Other Current Assets / Liabilities)	3,041	8,623	3,036
Total Debt	2,485	4,095	2,203
Net Debt / (Cash)	592	975	(2,555)
Net Debt / T12M EBITDA	n.m.	n.m.	n.m.
Net Debt / Equity	0.1	0.0	(0.1)
FX Position (Including Hedge)	(10,152)	(16,727)	(10,485)



## DISCLAIMER

This research report is for distribution only under such circumstances as may be permitted by applicable laws. The information and opinions in this report were prepared by AK INVESTMENT (Ak Yatırım Menkul Değerler A.Ş.) with information and data obtained from public sources, which are believed to be trustworthy. However, this research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to herein and, AK INVESTMENT does not guarantee that the information contained herein is true, accurate, complete or unchangeable. The views of AK INVESTMENT reflected in this document may change without notice. Investment information, recommendations and opinions contained in this report are not under the scope of investment advisory services. Investment advisory services are provided by authorized investment institutions to persons and entities privately by considering their risk and return preferences in accordance with the investment advisory services framework agreement to be executed by and between authorized investment institutions and clients, whereas the comments and advices included herein are of general nature. The statements indicated in this report should not be construed as an offer, invitation or solicitation to sell or purchase any securities or other instruments under any circumstances. This research report and any investment information, opinion and recommendation contained herein have not been prepared based on and may not fit to specific investment objectives, financial situation, investment goals, risk return preferences or particular needs of any specific recipient, and investments discussed or recommended in this report may involve significant risks, may be illiquid and may not be suitable for all investors. Therefore, making an investment decision only by relying on the information given herein may not give results that fit your expectations. Investors must make their own investment decisions considering the said circumstances and based on their specific investment objectives and financial situation and obtaining independent specialized advice as may be necessary. In addition, AK INVESTMENT research department produces various types of research including, but not limited to, fundamental analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research, whether as a result of differing time horizons, methodologies, or otherwise. AK INVESTMENT is under no obligation to disclose or take account of this document when advising or dealing with or on behalf of customers. Readers are thus advised to have the accuracy of the information contained confirmed before acting by relying on such information and the readers shall bear the responsibility of the decisions taken by relying thereon. Neither AK INVESTMENT nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or any losses or damages which may arise from the use of this research report. Furthermore, the personnel and consultants of AK INVESTMENT shall not have any responsibility in any case for direct or indirect damage caused by such information. Moreover, AK INVESTMENT shall not be held liable for any damage to the hardware or software of the receiver caused by any viruses, detected transfer or any other technical reason in case of the receipt of the reports via the internet or through e-mail.

---

## AK Investment Research Stock Rating Methodology

Our rating system aims to indicate a relative value and is therefore based on a graduated scale (Outperform, Neutral and Underperform). While the BIST-100 (XU100) Index is treated as the point of reference when assigning our ratings, each analyst also takes into account views towards stocks in relation to the sectors under coverage and the sector call relative to the market. We also categorize the stocks in our coverage under two groups, principally in accordance with their liquidity (based on free-float market capitalization and historical average daily trading volume) as small-cap stocks exhibit different risk/return characteristics than more-liquid large-caps. In conjunction, the individual stock ratings reflect the expected return of the stock relative to the broader market over the next 6 to 12 months. The expected performance equals to the sum of forecasted share price appreciation and expected cash dividend income. It is a function of the near-term company fundamentals, the outlook for the sector, the confidence in earnings projections and the company valuation, along with other factors. In light of this expected return, the target price for a stock represents the value the analyst expects the stock to reach or sustain over a 12-month horizon. However, this should be interpreted as a notional reference price and must be discounted by the stock's cost of equity to calculate the current fair price estimate.

A key element of our rating system is the benchmarking of the 12-month expected return against the cost of equity. We apply a required rate of return for each stock, calculated on the basis of our assumed risk-free rate and equity risk premium. A stock is normally assigned an Outperform rating if the implied return over the next 12 months exceeds the required rate of return (cost of equity) by at least 10 percentage points for our larger-cap stock coverage, or by 15 percentage points for the small-cap group. As the average potential upside of the stocks in our coverage may be considerably higher or lower than the average cost of equity, we also filter stocks according to their potential upside with respect to other stocks under coverage, with the practical aim of attaching an Outperform rating to the top group (generally 30-50% of the companies under our coverage), a Neutral rating for the next 40-50% and an Underperform rating to the lowest group (no less than 10%, and typically between 10-20% of the coverage group). The expected returns on some stocks may fall outside the range of the applicable rating category, due to movements in market prices and other short-term volatility or trading patterns, or analyst discretion. While temporary deviations from the specified ranges are permitted, they would subsequently become subject to review. Note too that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

**Outperform.** An outperform rating conveys an expectation that the stock will outperform the BIST-100 Index (XU100) within the next 6 to 12 months.

**Neutral.** A neutral rating would convey an expectation that the stock will perform broadly in line with the BIST-100 (XU100) Total Return Index.

**Underperform.** An underperform rating conveys an expectation that the stock will yield a return below that of the BIST-100 (XU100) Total Return Index within the next 6- to 12-month period.

**Not Rated (N/R).** A not rated rating is assigned when the analyst does not have adequate conviction about the stock's total return relative to the BIST-100 (XU100) Total Return Index or to the average total return of the analyst's industry coverage universe, on a risk-adjusted basis, over the next 6 to 12 months.

**Under Review (U/R).** An under review rating is temporarily assigned when the analyst starts an appraisal process of the rating for a potential revision, or the issuer has a significant material event with further information pending or to be announced. This does not revise the previously published rating, but indicates that the analyst is actively reviewing the investment rating or waiting for sufficient information to re-evaluate the analyst's expectation of total return on equity.

---

## Disclosure

AK INVESTMENT does and seeks to do business with companies covered in its research reports. AK INVESTMENT may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of AK INVESTMENT. While the analyst will have endeavoured to be objective in the preparation of this report, investors should be aware of any implications of such a relationship on the objectivity of the report, or unintended conflicts of interest which may have arisen in its preparation. Investors should consider this report as only a single factor in making their investment decision. AK INVESTMENT, any of its parents, subsidiaries or affiliates, agents, and/or their respective officers, directors or employees may hold positions and at any time make purchases or sales as a principal or agent of the securities referred to herein.

## Analyst Certification

The analyst(s) listed on the cover page of this report certify that the views contained within this report accurately reflect their own personal views regarding the securities and the issuers referred to therein. The analyst(s), employed by AK INVESTMENT and named in this report, are not aware of any actual or material conflict of interest that may exist concerning any of the companies mentioned here at the time of this certification, and have not and will not receive any compensation for providing a specific recommendation or view in this report. AK INVESTMENT research reports are distributed internally only after they are distributed to clients. Research analysts will not conduct any disclosure of research reports they are planning to publish with any personnel outside the research department, except to legal and compliance personnel.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Ak Yatirim Menkul Degerler A.S. (“AK INVESTMENT”), a company authorized to engage in securities activities in Turkey. AK INVESTMENT is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

---



## Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither AK INVESTMENT nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

AK INVESTMENT may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of AK INVESTMENT.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by AK INVESTMENT with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of AK INVESTMENT and AK INVESTMENT accepts no liability whatsoever for the actions of third parties in this respect.

---