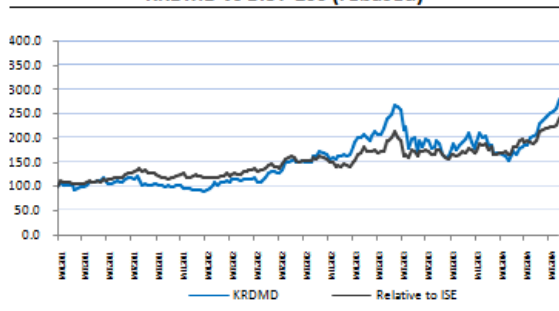


**Kardemir**
**Earnings Update**
**BUY**
**KRDMD**
**Iron & Steel**

Share Price	TL 1.89
Target Price	TL 2.40
Upside Potential	27%
Market Cap (mn)	\$644
Market Cap (mn)	1,365 TL
EV (mn)	1,898 TL
Free Float	89%
Beta	0.99

EPS 14'e	0.19 TL
EPS 15'e	0.22 TL

Price Performance	TL	Rel to ISE-100
1 Month	21%	16%
Y to D	78%	53%
1 Year	48%	44%
52-week range	TL 1.92 - 0.96	
Ave. Daily Volume (12M) - mn	\$19.1	
Ave. Daily Foreign Trading Volume (12M) - mn	\$3.0	

**KRDMD vs BIST-100 (rebased)**


Financials (mn)*	2013	2014e	2015e
Revenues	1,812 TL	2,136 TL	2,545 TL
EBITDA	329 TL	477 TL	530 TL
Net Income	100 TL	202 TL	231 TL
Revenues $\Delta$ y/y	7.4%	17.9%	19.2%
EBITDA $\Delta$ y/y	6.5%	44.8%	11.2%
Net Income $\Delta$ y/y	-48.4%	101.6%	14.6%
EBITDA Margin	18.2%	22.3%	20.8%
Net Margin	5.5%	9.5%	9.1%
P/E	12.1x	9.9x	8.6x
EV/EBITDA	6.2x	5.8x	5.2x
P/BV	1.0x	1.4x	1.2x
BVPS	1.18 TL	1.37 TL	1.59 TL
Dividend Yield	--	--	--

\* Financials are for the whole company; valuation metrics is for KRDMD only

Valuation Method*	Weight	Target Value
DCF - mn	30%	2,208 TL
Peer Comparison - mn	40%	3,906 TL
EBITDA Multiple Growth Method	30%	3,028 TL

\* For the whole company

	Target* MCAP	Target Price per Share	Upside Potential
KARDEMIR			
KRDMA (Class-A Shares)	530.25 TL	2.40 TL	-17%
KRDMB (Class-B Shares)	263.62 TL	2.40 TL	-25%
KRDMD (Class-D Shares)	1,721.63 TL	2.40 TL	27%

**Buy maintained with a higher TP!**

We maintain our BUY recommendation for Turkey's leading long steel producer Kardemir (KRDMD) with a target price of TL2.40 per share. We have increased our 12-month target price from TL2.00 to TL2.40 per share as a result of revision in our estimates following the higher than the expected 1q14 results and downward revision in RfR; we are now using 9.0% as RfR in tandem with our 10-year bond yield forecast for the year-end, which supports our target price for KRDMD since our previous RfR was 10%. Please find related sensitivity analysis regarding RfRs/TPs below. Our TP now denotes an upside of 27%, hence our BUY recommendation.

**Sensitivity Analysis**

Risk Free Rate	TP from DCF	TP
8.00%	TL 2.44	TL 2.55
8.50%	TL 2.26	TL 2.47
<b>9.00%</b>	<b>TL 2.11</b>	<b>TL 2.40</b>
9.50%	TL 1.97	TL 2.34
10.00%	TL 1.84	TL 2.28

We foresee EBITDA CAGR of 14% and net income CAGR of 20% over 2014e-2016e supported by c.20% revenue CAGR thanks to promising outlook:

- ✓ competitive cost advantages (domestic sourcing of raw materials and self-sufficient in energy needs with the new energy plant investment)
- ✓ weak TL supports top-line
- ✓ good product mix with rising share of value added products via higher capacity projects
- ✓ new investments (railway wheel factory and wire rod & bar rolling mill) to produce more value added products,
- ✓ ongoing investments (to increase crude steel capacity from 1.8mn to 3mn tonnes by 3q14 and also to provide cost savings)
- ✓ strong sales volume guidance (20% rise y/y) supported by domestic infrastructure projects and construction growth as well as Turkish national rail network to reach 25k km by 2023 (9.6k km as of 2012).

KRDMD trades at 31% and 30% discount to int'l emerging peers with respect to our P/E'14e and EV/EBITDA'14e. Additionally, KRDMD trades at 20% and 28% discount to int'l emerging peers with respect to our P/E'15e and EV/EBITDA'15e. Our peer comparison valuation denotes c.46% upside for the Company. Note that, we are above Bloomberg consensus for 2014 estimated EBITDA (TL379mn) and net income (TL191mn).

Please refer to end of report for important disclosure

**Ayse COLAK, CFA**  
acolak@terabrokers.com  
+90 212 365 10 80

**Tugce KARAGUL**  
tkaragul@terabrokers.com  
+90 212 365 10 03

**1q14 results beat estimates...** Kardemir has reported TL101mn in 1q14 beating the consensus estimate by 65% thanks to robust operational results. *Top line grew considerably by 48% y/y with strong sales volume (+29% y/y)* with strong pricing and TL depreciation. 1q14 volume growth stemmed from 121% y/y and 62% y/y increase in value-added products of profiles and billets respectively. Operating margins beats estimates (EBITDA margin by 37%) and 1q14 EBITDA margin improved 8.9 ppts y/y thanks to widening gap between raw material prices and Kardemir's end product prices.

2014 financial outlook is strong with the sizable EBITDA growth of 45% y/y (previous est.: +24.5% y/y) as the Company has become self-sufficient in its energy needs together with rise in sales volumes with the new capacity increase and higher share of value-added products. Our 2014 EBITDA estimate is TL477mn (previous est.: TL410mn) and for 2015 we foresee 11% y/y surge in EBITDA.

**Overall we expect c.15% growth in total volume sales in 2014...** For 2014, our EBITDA margin estimate is 22.3% (previous est.: 19%) indicating 4.1 ppt y/y growth and net margin is 9.5% (previous est.: 7.1%) implying 4 ppt y/y rise.

Operating Data	2011	2012	1q13	2013	1q14	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e
Kardemir Sales Volume	1,363,682	1,424,886	335,202	1,554,738	432,736	1,781,277	2,083,553	2,454,884	2,607,763	2,754,957	2,865,155	2,979,761	3,098,951
Kardemir Avg. Sale Price (\$/ton)	\$692	\$654	\$689	\$606	\$569	\$555	\$555	\$545	\$541	\$537	\$533	\$529	\$525
Sales Revenue (TLmn)	1,591	1,687	371	1,812	550	2,136	2,545	3,034	3,295	3,561	3,784	4,022	4,275
Gross Profit	303	268	51	272	122	374	420	501	593	623	662	676	722
<i>Gross Profit Margin</i>	<i>19.0%</i>	<i>15.9%</i>	<i>13.8%</i>	<i>15.0%</i>	<i>22.2%</i>	<i>17.5%</i>	<i>16.5%</i>	<i>16.5%</i>	<i>18.0%</i>	<i>17.5%</i>	<i>17.5%</i>	<i>16.8%</i>	<i>16.9%</i>
EBITDA	332	309	66	329	142	477	530	617	715	751	794	763	810
<i>EBITDA Margin</i>	<i>20.9%</i>	<i>18.3%</i>	<i>17.7%</i>	<i>18.2%</i>	<i>25.7%</i>	<i>22.3%</i>	<i>20.8%</i>	<i>20.3%</i>	<i>21.7%</i>	<i>21.1%</i>	<i>21.0%</i>	<i>19.0%</i>	<i>18.9%</i>
Net Income	185	194	48	100	101	202	231	293	364	386	415	385	418
<i>Net Margin</i>	<i>11.6%</i>	<i>11.5%</i>	<i>12.8%</i>	<i>5.5%</i>	<i>18.3%</i>	<i>9.5%</i>	<i>9.1%</i>	<i>9.6%</i>	<i>11.1%</i>	<i>10.8%</i>	<i>11.0%</i>	<i>9.6%</i>	<i>9.8%</i>
COGS (TL/ton)	933 TL	984 TL	939 TL	979 TL	981 TL	978 TL	1,008 TL	1,021 TL	1,024 TL	1,054 TL	1,077 TL	1,110 TL	1,133 TL
Opex (TL/ton)	37 TL	41 TL		38 TL		47 TL	56 TL	67 TL	72 TL	78 TL	83 TL	137 TL	145 TL
EBITDA (TL/ton)	241 TL	214 TL	192 TL	209 TL	324 TL	264 TL	252 TL	248 TL	271 TL	269 TL	274 TL	253 TL	258 TL

Source: The Company, Tera estimates, Bloomberg

**TERA BROKERS RATING**

<b>BUY</b>	<b>More than 20% return</b>
<b>NEUTRAL</b>	<b>Between +20% and -10% return</b>
<b>SELL</b>	<b>Downside potential is more than 10%</b>

**Tera Menkul Değerler A.Ş.** Eski Büyükdere Cad. İz Plaza Giz Floor 8 Maslak, İstanbul

**Tel: +90 212 365 1000**

[www.terabrokers.com](http://www.terabrokers.com)

**Research\_Tera@terabrokers.com**

**Disclaimer**

All the information and opinions covered herein have been prepared as of specified dates by Tera Menkul Değerler A.Ş. ("Tera Brokers") with the purpose of informing the investors. Tera Menkul Değerler A.Ş. has no obligation as to inform the investors regarding the changes in the information and opinions after the specified dates. Tera Menkul Değerler A.Ş. and its affiliated organizations and persons may act as a market maker or make transactions intensively on the securities of the companies covered herein. Tera Menkul Değerler A.Ş. and its affiliated organizations and persons may take position on any of the securities covered herein from time to time and they may buy/sell these securities or options regarding to these securities for their own and / or client's account. The investment options discussed here may not be appropriate for all investors. Investors should make the investment decisions relating to the securities of the firms covered herein by taking their special investment goals and financial status into consideration and based on prospects approved by the firm, circulars, their own investigations and advices from their independent consultants. The information covered herein may not be interpreted as legal, tax or financial recommendations. In the case that the investment is in foreign currency, the currency fluctuations may have negative impacts on the value, price of the investment or on the return of the investment. The return of the investment may be unstable. Previous performance cannot be taken as a guarantee of the future results. The price and values of the investments covered herein may rise or fall in such a way that will be directly or indirectly contrary to the interests of the investors and this situation may cause losses in the principal amount. The investors must have financial sufficiency to face with the risks relating to the investments covered herein. All the information here has been taken from the publicly open sources or from other sources that are believed to be reliable by Tera Menkul Değerler A.Ş. Tera Menkul Değerler A.Ş. has no implicit/explicit declaration or commitment about the exactness, accuracy or compatibility of the information or the estimations, arguments or the opinions based on the information. Tera Menkul Değerler A.Ş. is not liable of any direct / indirect, moral / physical losses. In no circumstances should any information contained herein be used or considered as an offer to sell or to buy the securities mentioned herein by / in the name of Tera Menkul Değerler A.Ş. or another firm to another person. This report contains the personal opinions of the analyst(s) regarding the securities and firms. The income of the analyst(s) is not and will not be related with their recommendations and opinions covered herein. By reaching the information and opinions covered herein, you will be considered to have understood the notifications above and agree to obey. All the statutory rights of the information and reports herein belong to Tera Menkul Değerler A.Ş. and in no way it can partly and / or as a whole be copied, used differently, distributed, changed or transferred to computer systems for future use without the prior authorization of Tera Menkul Değerler A.Ş. Otherwise, Tera Menkul Değerler A.Ş. reserves the right of claim of all the losses and damages.

**Capital Market Board's Warning Note regarding Investment Advisory Services rendered by Securities firms:**

All the information, interpretations and recommendations covered herein relating to investment actions is NOT in the scope of investment consultancy. Investment consultancy services are rendered according to the investment consultancy agreement signed between the clients and securities firms, portfolio management firms or investment banks. All the interpretations and recommendations covered herein depend on the personal opinions of the analyst(s). These opinions may not be appropriate for the client's financial status and risk and income preferences. Therefore, investment decisions based only on the information covered herein may not result as expected.