

Tumosan

Company Update

SELL

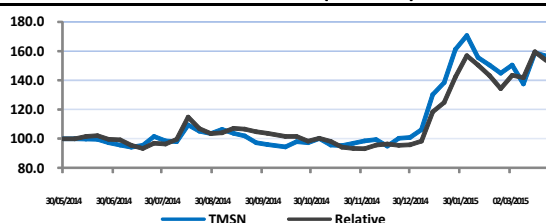
TMSN

Agricultural Machinery

| | |
|------------------|---------|
| Share Price | TL 8.07 |
| Target Price | TL 6.90 |
| Upside Potential | -14% |
| Market Cap (mn) | \$364 |
| Market Cap (mn) | TL 928 |
| EV (mn) | TL 957 |
| Free Float | 17% |
| Beta | 0.29 |
| EPS 15'e | TL 0.44 |
| EPS 16'e | TL 0.51 |

| Price Performance | TL | Rel to BIST-100 |
|--|----------------|-----------------|
| 1 Month | 8.2% | 14.3% |
| Y to D | 57.8% | 62.5% |
| 52-week range | TL 8.79 - 4.76 | |
| 12m Cumulative Foreign Inflow | -\$11.5 | |
| Ave. Daily Volume (12M) - mn | \$13.4 | |
| Ave. Daily Foreign Trading Volume (12M) - mn | \$0.5 | |

TMSN vs BIST-100 (rebased)



| Financials (mn) | 2014 | 2015e | 2016e |
|------------------------|--------|--------|--------|
| Revenues | TL 436 | TL 590 | TL 646 |
| Tractor | TL 436 | TL 475 | TL 529 |
| Altay Tank | TL 0 | TL 115 | TL 118 |
| EBIT | TL 34 | TL 51 | TL 60 |
| EBITDA | TL 43 | TL 96 | TL 107 |
| Tractor | TL 43 | TL 62 | TL 71 |
| Altay Tank | TL 0 | TL 34 | TL 35 |
| Net Income | TL 23 | TL 50 | TL 59 |
| Net Inc. (excl. Altay) | TL 23 | TL 34 | TL 43 |
| Revenues Δ y/y | -2.0% | 35.2% | 9.6% |
| EBITDA Δ y/y | -45.7% | 121.6% | 10.7% |
| Net Income Δ y/y | -63.4% | 121.7% | 17.5% |
| EBITDA Margin | 10.0% | 16.3% | 16.5% |
| Net Margin | 5.2% | 8.5% | 9.2% |
| P/E | 40.9x | 18.4x | 15.7x |
| EV/EBITDA | 22.0x | 9.9x | 9.0x |
| P/BV | 4.1x | 4.7x | 4.0x |
| Dividend Yield | 0.0% | 1.1% | 1.4% |

| Valuation Method | Weight | Target Value |
|----------------------|--------|--------------|
| DCF - mn | 70% | TL 789 |
| Peer Comparison - mn | 30% | TL 807 |

| Main Assumptions | Avg. Of TTRAK and Global Peers |
|------------------|--------------------------------|
| Rf(TL): 8.50% | EV/EBITDA'15e: 10.4x |
| WACC(TL): 13.2% | EV/EBITDA'16e: 8.8x |
| Beta: 1.0 | P/E'16e: 13.9x |
| TG: 5.0% | P/E'16e: 11.5x |

No upside excluding high speed train potential!

We have revised our forecasts and TP accordingly to TL6.90 from TL6.00 per share hence we maintain our SELL recommendation. Although we have included Altay Tank project's estimated net additional contribution into our valuation (TL1.20 per share), we have revised down our forecasts in core tractor business, hence our TP increased by only 15%. Note that we have not included a prospective high speed train production business in our valuation, which we believe is the main reason for stock outperformance this year.

TMSN outperformed BIST by 36% in the last 1 year and 68% ytd, thanks to Altay Tank project and high speed train prospect... TMSN will collect €190mn during development of national tank Altay's power unit (engine) project, which will take 54 months. Assuming 30% EBITDA margin, TMSN will generate c.€57mn additional EBITDA from this project, which is contributing TL1.20 per share to our TP. **TMSN signed a MOU with Spain's Patentes Talgo Talgo S.L.U. for jointly produce rolling stocks in Turkey and deliver 90 high speed trains.** We have not incorporated this prospect into our model, since there is no concrete development so far. Based on Transportation Minister Elvan's comments, we understand that Ministry will hold a tender for 80 high speed trains for production in Turkey. The estimated budget could be around \$2.5bn (based on tenders held before).

Altay Tank project will improve consolidated profitability if the revenues and profits are recorded on pro-rata basis over the project life... With the contribution of Altay Tank project, we expect consolidated revenues to grow by 35% & EBITDA to grow by 122% y/y in 2015. Therefore consolidated EBITDA margin will reach to 16.3%, indicating 6.3pps y/y growth in the same period. Having said that, 2015 multiples of 19.2x P/E and 10.3x EV/EBITDA are still not so cheap vs. peers.

EBITDA margin retreated to 10.0% in 2014 from 18.0% in 2013 and 13.4% in 2012... Also, the company lost 3.4pps market share (it is now 13.9%) during 2014. These figures were significantly below both our estimates and the company guidance. We revised down our EBITDA margin forecast (for tractor business) to 13.0% in 2015 (from 15.2%), still indicating 3pps y/y growth.

Upside & downside risks... TMSN could record a higher profitability for Altay Tank (we assumed 30% EBITDA margin and there is no company guidance). High speed train tender could be a major catalyst. Core tractor business performance could beat our estimates.

We have revised down our estimates for tractor business... We revised down our EBITDA margin forecast (for tractor business) to 13.0% (from 15.2%), still indicating 3pps y/y growth. We assume 15% sustainable EBITDA margin as of 2018 for the company now (vs. previous 16.6%). Domestic market was very strong in 2014, thanks to government incentives to <75hp tractors, in which competitor TTRAK has more than 50% market share. On the contrary, TMSN focuses on >75hp models, hence the company's domestic sales volume decreased by 13% in the same period, leading to retreat in market share to 13.9% from 17.3% last year. We assumed the company's market share will be balanced at 14.5% in 2015 with 3% growth in domestic sales, while we foresee a flat sales volume for overall market.

Upcoming high speed train tender date may create volatility in stock performance... TMSN signed a MOU with Spain's Patentes Talgo Talgo S.L.U. for jointly produce rolling stocks in Turkey and deliver 90 high speed trains. Since then, the stock price increased by 60% and outperformed the BIST-100 by 70%. The high speed train tender date is unknown for now. In the context of the tender, 90 high speed trains will be procured from a company with at least 51% domestic participation (based on Minister's speech) and revised documents implied 60 of these trains will be procured from domestic producers. Chinese CNR had submitted the lowest value with \$263.5mn bid to the tender for 6 high speed trains (Ankara-Konya railway) recently; hence this tender's prospective value should be around \$2.5bn for 60 trains. It is not clear whether TMSN and Talgo will win the tender; however if so, this would be a sizable opportunity for TMSN as the company's annual revenue is around \$200mn. Note that we did not include any prospective gain from this business in our model, hence any development is upside risk for our TP.

Tera Estimates for tractor business (excluding Altay Tank)

| TMSN (new estimates) | 2013 | 2014 | 2015e | 2016e | 2017e | 2018e | 2019e | 2020e |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales Volume (units) | 9,549 | 8,315 | 8,575 | 8,600 | 8,271 | 8,568 | 8,791 | 9,018 |
| Domestic | 9,325 | 8,111 | 8,350 | 8,350 | 7,921 | 8,158 | 8,321 | 8,488 |
| Export | 224 | 204 | 225 | 250 | 350 | 410 | 470 | 530 |
| Revenues - TLmn | 445 | 436 | 475 | 529 | 564 | 612 | 658 | 707 |
| EBITDA - TLmn | 80.1 | 43.5 | 62.0 | 71.4 | 82.1 | 91.5 | 98.7 | 106.5 |
| EBITDA Margin | 18.0% | 10.0% | 13.0% | 13.5% | 14.6% | 15.0% | 15.0% | 15.1% |
| Net Income - TLmn | 62 | 23 | 34 | 43 | 52 | 60 | 65 | 72 |

Source: The Company, Tera

| TMSN (previous estimates)* | 2013 | 2014 | 2015e | 2016e | 2017e | 2018e | 2019e | 2020e |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Sales Volume (units) | 9,549 | 8,315 | 9,380 | 9,850 | 9,450 | 10,010 | 10,263 | 10,520 |
| Domestic | 9,325 | 8,111 | 9,200 | 9,650 | 9,150 | 9,650 | 9,843 | 10,040 |
| Export | 224 | 204 | 180 | 200 | 300 | 360 | 420 | 480 |
| Revenues - TLmn | 445 | 436 | 500 | 571 | 603 | 669 | 719 | 773 |
| EBITDA - TLmn | 80.1 | 43.5 | 75.7 | 88.7 | 99.5 | 111.1 | 119.4 | 128.3 |
| EBITDA Margin | 18.0% | 10.0% | 15.9% | 16.8% | 17.6% | 18.1% | 18.1% | 18.1% |
| Net Income - TLmn | 62 | 23 | 56 | 65 | 74 | 82 | 88 | 95 |

Source: The Company, Tera

* Before 4q14 earning announcement

TMSN TRACTOR ONLY FINANCIALS AND FORECASTS

| Income Statement (TL mn)* | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
|-----------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Revenues | 445 | 436 | 475 | 529 | 564 | 612 |
| EBITDA | 80 | 43 | 62 | 71 | 82 | 92 |
| Depreciation | 7 | 10 | 11 | 12 | 13 | 14 |
| EBIT | 73 | 34 | 51 | 60 | 69 | 78 |
| Other income, net | 73 | 34 | 51 | 60 | 69 | 78 |
| Financial income, net | -4 | -7 | -6 | -5 | -3 | -2 |
| Profit before tax | 76 | 28 | 43 | 53 | 65 | 75 |
| Profit from continuing operations | 61 | 23 | 34 | 43 | 52 | 60 |
| Minority interest | 0 | 0 | 0 | 0 | 0 | 0 |
| Reported net earnings | 62 | 23 | 34 | 43 | 52 | 60 |
| Reported EPS | 0.54 | 0.20 | 0.30 | 0.37 | 0.45 | 0.52 |
| Growth* | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
| Sales | 52.7% | -2.0% | 9.0% | 11.2% | 6.7% | 8.5% |
| EBITDA | 104.4% | -45.7% | 42.6% | 15.1% | 15.0% | 11.5% |
| Balance Sheet (TL mn)* | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
| Cash & cash equivalents | 6 | 1 | 19 | 36 | 49 | 55 |
| Trade receivables | 55 | 78 | 72 | 78 | 82 | 89 |
| Inventory | 97 | 89 | 96 | 101 | 101 | 109 |
| Tangibles & Intangibles | 91 | 92 | 94 | 96 | 98 | 100 |
| Deferred Tax Assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Assets | 67 | 80 | 94 | 88 | 97 | 127 |
| Total Assets | 315 | 340 | 376 | 398 | 427 | 481 |
| Financial borrowing | 4 | 31 | 40 | 35 | 33 | 31 |
| Trade payables | 36 | 40 | 43 | 49 | 53 | 57 |
| Other liabilities | 34 | 43 | 95 | 85 | 72 | 79 |
| Minority Interest | 8 | 0 | 0 | 0 | 0 | 0 |
| Shareholders' Equity | 234 | 227 | 198 | 230 | 269 | 314 |
| Net Debt | -2 | 29 | 20 | -1 | -17 | -25 |
| Cash Flow Summary (TL mn)* | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
| EBIT | 73 | 34 | 51 | 60 | 69 | 78 |
| Tax | 15 | 5 | 9 | 11 | 13 | 15 |
| NOPAT | 58 | 29 | 43 | 49 | 57 | 63 |
| Minority Interests | 0 | 0 | 0 | 0 | 0 | 0 |
| Capex (net) | 24 | 16 | 10 | 11 | 12 | 12 |
| Depreciation & Amortization | 7 | 10 | 11 | 12 | 13 | 14 |
| Net Working Capital Change | -17 | 16 | 1 | 8 | 2 | 14 |
| Free Cash Flow | 106 | 38 | 63 | 63 | 80 | 75 |
| Dividends paid | 17 | 7 | 10 | 13 | 16 | 18 |
| Change in Net Debt | -27 | 31 | -9 | -22 | -15 | -8 |
| Key financial ratios* | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
| ROE | 26.6% | 10.0% | 17.3% | 18.5% | 19.2% | 19.0% |
| Adjusted EBITDA margin | 18.0% | 10.0% | 13.0% | 13.5% | 14.6% | 15.0% |
| Net Margin | 13.9% | 5.2% | 7.2% | 8.1% | 9.2% | 9.7% |
| Net debt/Equity | -0.01x | 0.13x | 0.10x | -0.01x | -0.06x | -0.08x |
| Net debt/EBITDA | -0.03x | 0.68x | 0.33x | -0.02x | -0.20x | -0.27x |
| Equity/Total Assets | 74.1% | 66.6% | 52.7% | 57.8% | 63.1% | 65.2% |
| Interest coverage | 17.8x | 4.8x | 8.4x | 12.6x | 21.3x | 36.5x |
| Cash dividend pay-out | 28% | 0% | 30% | 30% | 30% | 30% |

* All figures includes only tractor business

TERA MENKUL RATING

| | |
|--------------------------------|--|
| BUY | Upside potential more than estimated CoE* |
| NEUTRAL | Upside potential between 0% and estimated CoE* |
| SELL | No upside potential |
| * Current estimated CoE: 14.0% | |

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