

Anadolu Cam

OUTPERFORM

 Current price: TRY2.20
 12-mo T.Price: TRY2.60

3Q15 Earnings Comment

Analyst Omer Omerbas

+90 (212) 334 95 21

omer.omerbas@akyatirim.com.tr

3Q15 Actual result vs. estimates				Share Price performance		Margins	
TRYmn	Actual	Consen.	Ak				
Revenue	421	430	420	1M		3Q14	
EBITDA	82	90	86	3M		4Q14	
margin	19.4%	20.9%	20.5%	YtD		1Q15	
Net Inc.	8	19	21			2Q15	
						3Q15	

Comment: Bottom-line misses estimates, but operational turnaround theme continues

- ✓ Anadolu Cam announced a net profit of TRY8mn in 3Q15, below the consensus estimate of TRY19mn and our own estimate of TRY21mn of net income - the deviation from our call stemmed partly from the slightly lower than expected operating profitability, and largely from higher-than-expected net financial expenses (a TRY36mn expense in 3Q15 compared to a TRY24mn expense in 2Q15). In short, Anadolu Cam posted yet another set of agreeable operational results in 3Q15 with a 0.7 YoY increase in its EBITDA margin, albeit lagging slightly behind the consensus estimates (19.4% actual EBITDA margin vs 20.9% consensus and our estimate of a 20.5% margin). In cumulative terms, the 9M15 EBITDA margin came in at 19.4%, up by 2pp YoY.
- ✓ The lower-than-expected bottom-line figure may lead to a negative market reaction towards Anadolu Cam, which could be used as a buying opportunity to have exposure to a solid “operational turn-around” theme. The savings from the descaling efforts undertaken in the past 2 ½ years in the international operations has started to produce concrete results which, if sustained, may set the stage for the company to generate EBITDA margins of over 20% in the coming periods, for the first time since 2012. To recap, the consensus estimates foresee an 18% EBITDA margin on average in 2016 and 2017; thus, the current trend of the company’s operations imply that the risk to our forecasts is on the upside. Anadolu Cam shares outperformed the benchmark by 16% since our rating upgrade in mid-August (after the good 2Q15 financials) – prior to that, the stock had been a continuous underperformer for three years. We maintain our “Outperform” rating with a 12-month TP of TRY2.60.
- ✓ One key event to monitor going forward is the planned sale of Anadolu Cam’s remaining 12.5% stake in Soda Sanayi. The company had sold a 3.3% stake in Soda Sanayi in March 2015, generating TRY81mn of cash inflow. The value of the remaining stake is around TRY420mn, equal to 43% of Anadolu Cam’s current Mcap. Any newsflow regarding the stake sale may support sentiment towards Anadolu Cam.

Key Highlight: Continues improvement in profitability in international operations

- ✓ Anadolu Cam’s 3Q15 revenues posted 1% YoY increase, similar to the performance in 2Q15, despite the suspension of production at the Merefa plant in Ukraine from 2015. The 9M15 cumulative top-line figure now points to a 5% YoY drop – note that Anadolu Cam had recorded a significant 18% YoY decline in its top-line in 1Q15. At the moment, around 20% of Anadolu Cam’s installed capacity abroad (or 13% of the total capacity including Turkey) is off-line.
- ✓ The company’s 3Q15 EBITDA grew 5% YoY and the EBITDA margin stood at 19.4%, compared to 18.7% in 3Q14 and 20.5% in 2Q15. Key highlight to note is the continuing uptrend in the EBITDA margin of international operations: a 17% EBITDA margin was generated in 3Q15 following the reported EBITDA margins of 12.9% in 4Q14, 13.2% in 1Q15 and 15.0% in 2Q15.

Key P&L items, TRYmn	3Q15	3Q14	YoY Ch.	2Q15	QoQ chg.	9M15	9M14	YoY Chg.
Revenues	421	416	1%	446	-6%	1,155	1,210	-5%
Gross Profit	91	77	17%	105	-14%	254	221	15%
Gross marg.	21.6%	18.6%		23.6%		22.0%	18.3%	
EBITDA	82	78	5%	92	-11%	224	211	6%
EBITDA marg.	19.4%	18.7%		20.5%		19.4%	17.4%	
Net Profit	8	8	0%	40	-80%	125	16	675%

Key B/S & CFS items, TRYmn	3Q15	2Q15	1Q15	4Q14	3Q14
Net debt	794	813	757	695	743
FX position	-367	-86	77	-117	-223
OP. cash flow	103	178	-16	-137	86
Free cash flow	39	5	-12	-77	22

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