

# Trakya Cam

**NEUTRAL**

 Current price: TRY2.09  
 12-mo T.Price: TRY2.30

## 3Q15 Earnings Comment

 Analyst Omer Omerbas  
 +90 (212) 334 95 21

[omer.omerbas@akyatirim.com.tr](mailto:omer.omerbas@akyatirim.com.tr)

3Q15 Actual result vs. estimates				Share Price performance		Margins	
TRYmn	Actual	Consen.	Ak				
Revenue	507	533	538	1M		30%	
EBITDA	60	79	75	3M		18%	
margin	11.9%	14.7%	13.9%	YtD	-25%	14%	13%
Net Inc.	32	33	23			26%	11%

### Comment: Downgraded to “Neutral” on weak operational result

- ✓ Trakya Cam posted a TRY32mn net profit in 3Q15, down by 34% YoY, in-line with the consensus estimate of TRY33mn and better than our bearish call of TRY23mn. Trakya’s 3Q15 operational performance was rather weak with the top-line posting a meagre 3% YoY increase to come in at TRY507mn, falling 5% short of estimates, but more strikingly with 6pp lopped off its EBITDA margin in YoY terms (11.9% actual margin vs. the consensus estimate of 14.7% and our call of a 13.9% margin - one of the lowest quarterly realizations in the company’s history). Nevertheless, the higher-than-expected net other income (driven by FX gains) and income from equity participations compensated for the weak operating figures and pushed the bottom-line towards the consensus estimate.
- ✓ All in all, Trakya’s 3Q15 financials failed to provide the market with any sign of the long-awaited rebound in top-line growth or any imminent recovery in margins. This will hurt investor sentiment towards the stock, which had improved recently in parallel with comments that Trakya would be among the beneficiaries of the rosier outlook for the construction sector in the aftermath of the general election. Note that Trakya outperformed the benchmark index by 3% during the last week, following a 14% underperformance in the prior four months. We doubt that the lagging recovery in financials will further lure investors to increase their positions in the stock. **We downgrade our rating for Trakya Cam to “Neutral”, maintaining our 12-month TP of TRY2.30/share (10% upside potential). We are also removing the stock from our MPS (most-preferred-stocks) list.**

### Key Highlight: Top-line performance remains subdued, EBITDA margin hit lower

- ✓ Trakya Cam reported TRY507mn of revenues in 3Q15, up by 3% YoY. The contribution of the new Polatli line, which came on stream in 2Q14, was off-set by the suspension of production at one of the lines in Mersin/Turkey for cold repair at the beginning of the year. Russian plant, which became operational in 3Q14, was negatively affected from the Rouble devaluation and made a limited contribution to consolidated top-line. Due to a decline in volumes, there was a 9% YoY decline in the EUR revenues of German Fritz Holding, which accounts for 20% of the total consolidated top-line.
- ✓ Trakya Cam’s 3Q15 EBITDA fell 33% to TRY60mn, implying a 6 pp YoY decline in the margin to 11.9%, implying a worsening trend when compared to the 2.4pp YoY contraction seen in 1H15. We would note that the 9% hike in natural gas prices effective from 4Q14 depressed the profitability of the company’s operations in Turkey during 2015 (the EBITDA margin of the segment fell 4pp YoY in 9M15). Its European operations posted a negative EBITDA in 3Q15 - one of the reasons behind the actual consolidated EBITDA missing our estimate; the operation had generated a “high-single-digit” EBITDA margin in 2Q15. The Russian operation continued to post a negative EBITDA in 3Q15, though there was still some improvement on a QoQ basis.

Key P&L items, TRYmn	3Q15	3Q14	YoY Ch.	2Q15	QoQ chg.	9M15	9M14	YoY Chg.
<b>Revenues</b>	507	495	3%	525	-3%	1,493	1,448	3%
<b>Gross Profit</b>	126	150	-16%	134	-6%	386	417	-7%
Gross marg.	24.9%	30.3%		25.4%		25.8%	28.8%	
<b>EBITDA</b>	60	90	-33%	73	-17%	200	248	-20%
EBITDA marg.	11.9%	18.1%		13.8%		13.4%	17.2%	
<b>Net Profit</b>	32	48	-34%	28	13%	103	157	-35%

Key B/S & CFS items, TRYmn	3Q15	2Q15	1Q15	4Q14	3Q14
<b>Net debt</b>	356	283	225	115	401
<b>FX position</b>	-178	6	69	124	-307
<b>OP. cash flow</b>	17	87	-31	115	34
<b>Free cash flow</b>	-45	-10	-94	201	-35

**DISCLAIMER**

This report has been prepared by Ak Investment (Ak Yatırım Menkul Değerler A.Ş.) by using the information and data obtained from sources which are reasonably believed to be trustworthy. The statements indicated in the report should not be assumed to be sales or purchase offers under any circumstances. Ak Investment does not guarantee that the information contained is true, accurate and unchangeable. Thus, the readers are 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. Ak Investment shall not in any case be responsible for incompleteness and inaccuracy of the information. Furthermore, the personnel and consultants of Ak Investment and Akbank 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 a virus, detected transfer or any other technical reason in case of the receipt of the reports via internet or through e-mail.

**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").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 20 Broad Street 26th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through AK INVESTMENT. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Ownership and Material Conflicts of Interest**

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication

**Compensation and Investment Banking Activities**

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

### 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.