

## AKCANS

## Market Outperformer

## Cement

January 15, 2014

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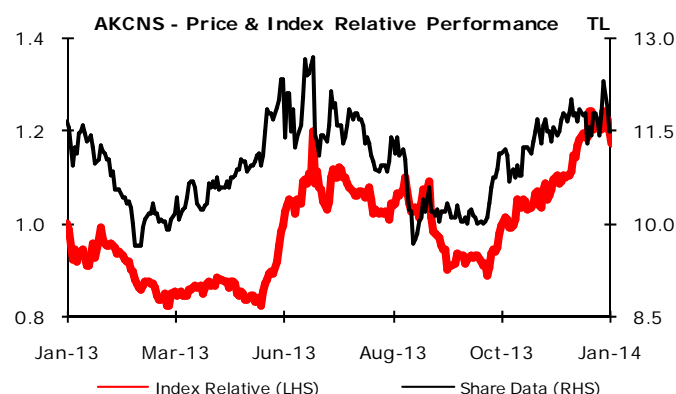
## Cementing demand with elections...

- We increase our 12M target price to TL13.0/sh. (prev. TL12.75/sh.), driven by higher international peer multiples and maintain our "Market Outperformer" rating. We view Akcansa as the strongest beneficiary of ongoing and upcoming construction projects, as well as pre-election infrastructure spending by the Government. We project a CAGR of 14% EBITDA and 18% net income between 2013E-15F for Akcansa.
- Domestic market shows robust growth ahead of election period. We expect Turkey's cement consumption grew by 10% YoY in 2013, which is significantly above our GDP growth estimate of 3.8% for 2013, thanks to ongoing strong construction activity on the back of rising momentum in infrastructural spending in the run up to elections (2014-2015). Given the busy construction activity in the pipeline and the election momentum, we foresee 5% YoY volume growth for Turkey in 2014, more than double our 2.1% GDP growth estimate, on the back of already started and potential infrastructure projects. Similarly, we assume 5% YoY domestic cement volume growth for Akcansa in 2014.
- We highlight two reasons to remain bullish on Akcansa. Firstly, the crowded infrastructure pipeline is mostly concentrated in the Marmara region and secondly, urban transformation (UT). We expect cement consumption in the Marmara region, especially in the Greater Istanbul area, to further change in favor of infrastructure investments (i.e. the 3<sup>rd</sup> bridge over the Bosphorus, north Marmara highway, new subway & tunnel routes) and public investments (i.e. Istanbul Finance Center and new hospital construction) over the next 5-year period. Moreover, urban transformation investments that are estimated to reach US\$400bn, will boost cement demand in the mid-long run.
- Dividend yield at c.6%. For 2014, our dividend yield forecast stands at TL0.72/sh. from 2013 earnings (90% payout ratio estimation), yielding 6.4%. The dividend distribution is expected to take place in April, which should keep interest in the stock alive, in our view.

## Stock Data\*

Price (TL / US\$)	11.20 / 5.11
Target Price (TL/US\$)	13.00 / 5.93
1-Year Price Range (TL)	12.95 / 9.10
Number of Shares (000)	191,447
Market Cap. (TLmn)	2,144
Net Debt (2013/09, TLmn)	263
Free Float	20.6%
Daily Vol. (3 Month, TLmn)	1.0
Ticker (Reuters, Bloomberg)	AKCNS.IS, AKCNS TI
ISE-100 Index (TL / US\$)	68,073 / 31,071

(\*) Price data as of January 14, 2014



## Stock Performance

	1 Week	1 Month	3 Month	1 Year
TL	-8.9%	-5.1%	11.4%	2.3%
Index Relative	-8.2%	3.3%	24.8%	23.2%

## Forecasts (IFRS, TLmn) &amp; Valuation

	2012A	2013E	2014F	2015F
Net Sales	1,056	1,204	1,376	1,459
EBITDA	215	268	317	348
Net Profit	120	153	189	214
EV/Sales	2.0	1.7	1.5	1.4
EV/EBITDA	9.6	7.7	6.5	5.9
P/E	17.9	14.0	11.4	10.0

## Shareholding Structure

Sabancı Holding	39.7%
HeidelbergCement	39.7%
Free Float	20.6%

## INVESTMENT THEME

**Domestic market shows robust growth ahead of election period...**

We expect Turkey's cement consumption grew by 10% YoY in 2013, which is significantly above our GDP growth estimate of 3.8% for 2013, thanks to ongoing strong construction activity on the back of rising momentum in infrastructural spending in the run up to elections (2014-2015). Recall that Turkey's domestic cement consumption registered 10.4% YoY growth during 10M13. We project Akcansa's total cement volume increased by 10% YoY in 2013E. The management has hinted that 4Q13 domestic volumes were similar to 3Q13 levels and better than their projections, thanks to mild weather conditions in the Marmara region (Northwest Turkey).

As we are heading to the election period (municipal elections in March-2014, presidential elections in August-2014 and general elections in June-2015), we expect cement demand growth to reach full speed in 2014 and continue until the general election of 2015. Given the busy construction activity in the pipeline and the elections momentum, we foresee 5% YoY volume growth for Turkey in 2014, more than double our 2.1% GDP growth estimate on the back of already started and potential infrastructure projects. Similarly, we assume 5% YoY domestic cement volume growth for Akcansa in 2014.

**We favor Akcansa for two factors, first; crowded infrastructure pipeline mostly concentrated in the Marmara region...**

Starting from 2006, the share of infrastructure projects in total cement consumption rapidly increased to 33% in 2013 from 20% in 2006, thanks to the prevailing low interest rate environment. Meanwhile, the share of private housing in total cement consumption declined to 53% in 2013 from 62% in 2006 (see table below). In fact, infrastructure investments are more preferred by the sector as they create longer term and steady cement demand, when compared to the housing sector.

<b>Cement Consumption by Segments</b>								
	2006	2007	2008	2009	2010	2011	2012	2013
Private Housing	62%	57%	50%	51%	54%	52%	53%	53%
Infrastructure	20%	22%	32%	35%	30%	33%	31%	33%
Commercial	14%	16%	13%	9%	11%	10%	11%	9%
Public	4%	5%	5%	5%	5%	5%	5%	5%
<i>Source: Akcansa</i>								

Going forward, we expect cement consumption in the Marmara region, especially in the Greater Istanbul area, to further change in favor of infrastructure investments (i.e. the 3<sup>rd</sup> bridge over the Bosphorus, north

Marmara highway, new subway & tunnel routes, speed train projects in northwest Turkey, Canakkale bridge, and potentially the 3<sup>rd</sup> airport in Istanbul) and public investments (i.e. Istanbul Finance Center, municipal headquarters and new hospital constructions) over the next 5 years period. It should be noted that Akcansa currently operates at around 90% CUR at clinker level, which is sufficient to meet the upcoming demand without any capacity expansion.

We view Akcansa as the strongest beneficiary of ongoing and upcoming construction projects as well as pre-election infrastructure spending by the Government, thanks to proximity of the plants to key projects. Recall that Akcansa is the sole concrete supplier to the third bridge in Istanbul (around 70K tons of cement) and will supply concrete for the highway connections on the European side (around 250K tons of cement) between 2013-2015.

... and second; urban transformation (UT) has a potential to boost cement demand on the housing front in the mid-long run.

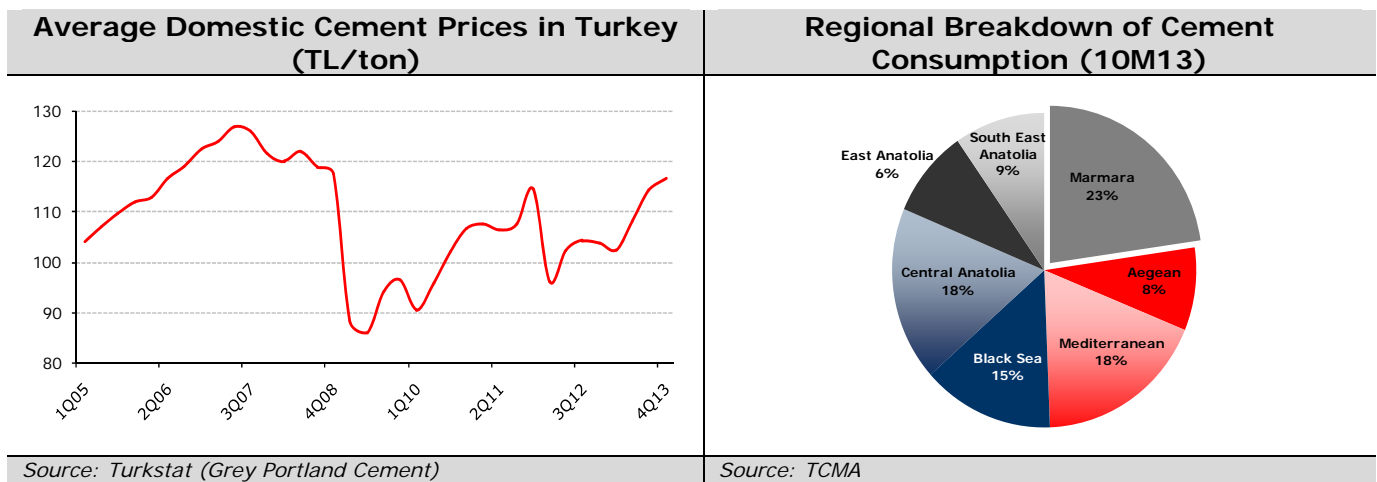
The Government had officially started UT in October-2012, aiming to renew c.40% of Turkey's existing housing stock (7mn units) and correcting the unplanned urbanization of major cities of Turkey over the next 20 years. Accordingly, urban transformation investments that are estimated to reach US\$400bn, will boost cement demand in the mid-long run. This transformation has already started with intense concentration in the Greater Istanbul area (2mn housing units to be rebuilt), and we expect to see the positive impact on domestic cement demand and prices to get much stronger from 2014 onwards. Accordingly, we project c.80mn tons of additional cement consumption over 20 years from UT. Note that more than 50% of the additional cement demand is allocated to the Marmara region, where the housing stock is the weakest and the earthquake risk the highest. In line with management guidance, we have incorporated impact on Akcansa's valuation of UT as creating an additional 10% volume demand (around 550K tons annually) in the 2014F-23F period.

Cement prices in the Marmara region continued to increase above CPI in 2013...

Cement prices in the Marmara region used to be slightly lower compared to other regions of Turkey, such as the Black Sea (northern Turkey) and the Mediterranean (southern Turkey) regions, given hefty infrastructure investments in these two regions. However, this trend reversed in 2H13 in favor of Marmara region (TL3-5/ton higher prices) on the back of new

infrastructure projects in the region. During 2013, Akcansa's ex-factory average domestic cement prices rose by 10% YoY to TL110/ton.

2014 has started strong as Akcansa increased its domestic cement prices effective as of January-2014, which will lead to a continuation of margin recovery in 2014. On a YoY basis, we have factored in a 10% YoY increase in Akcansa's average domestic cement price to TL122/ton in 2014F, thus above our 2014F avg. CPI forecast of 8.0%, given the strong demand outlook as well as the absence of new capacity additions.



#### Increasing alternative fuel usage will support profitability...

It is worth noting that energy-related costs (coal, pet-coke, fuel, and electricity) claim the lions' share of Akcansa's production (45-50% of total CoGS). Meanwhile, electricity costs alone account for 20-25% of total CoGS. We believe that Akcansa's continued efforts to diversify its energy procurement through increasing alternative fuel usage (i.e. waste heat and shredded tire import) are key factors in sustaining margins going forward. With its waste heat facility at the Canakkale plant, Akcansa meets 33% of the plant's electricity demand and creates a monthly saving of around TL1.5mn. Moreover, Akcansa mainly burns imported shredded tire, industrial oil & plastics and sewage sludge at the Buyukcekmece plant as an alternative for petro-coke. Going forward, Akcansa's main target is to raise the alternative fuel usage to 20% by 2015 up from 5% in 2012.

For 2014, we project an 80 bps EBITDA margin improvement YoY to 23% (vs. the management guidance of 24%), owing to price increases effective as of January 2014 and supported by higher contribution of alternative fuel usage, which will help margins. On the cost side, we project muted pet-coke and coal costs, while we expect a 10% price hike on electricity tariffs effective as of

April 1<sup>st</sup>. Despite a 21.7% cumulative increase in electricity tariffs (9.1% in October 2011 + 8.6% in April 2012 + 4.0% in October 2012) during 4Q11 and throughout 2012, Akcansa managed to increase its EBITDA margin by 122 bps YoY to 20.4% in 2012 with easing petro-coke prices and rise in alternative fuel usage that was at 5% level. Currently, the alternative fuel usage level is at c.7% and it is forecasted to reach 20% by 2015. It is worth noting that Akcansa switches from exports to the lucrative higher-priced domestic market, when the local demand conditions are strong, which should be supportive of margins until the end of the election period (2015). All in all, we consider the c.24% EBITDA margin a sustainable long-term level for the Company, which we estimate it will reach in 2015.

#### Dividend yield stands at c.6%...

Akcansa is a regular cash dividend payer with an average payout ratio of 90% (past 2 years' average). For 2014, our dividend yield forecast stands at TL0.72/sh. from its 2013 earnings (90% payout ratio estimation), yielding 6.4%. The dividend distribution is expected to be in April, which should keep interest in the stock alive, in our view.

DIVIDENDS	2006	2007	2008	2009	2010	2011	2012	2013F
Payout Ratio	88%	67%	67%	87%	66%	88%	92%	90%
Dividend Yield	7.7%	11.2%	9.6%	4.6%	2.8%	5.6%	5.2%	6.4%

*Source: Akcansa, Ak Investment Estimates*

#### RISKS

The main downside risks to our valuation and rating include; i) a sharp economic slowdown, or significant hike in interest rates leading to lower than expected sales volumes, ii) a surge in energy costs causing margin contraction, iii) delay or cancelation of big ticket infrastructure and public projects, iv) intensifying competition, due to excess capacity created by new entrants, or capacity expansions from existing players would pressure margins.

## VALUATION

We have used a blended valuation, assigning equal weight to our DCF (50%) and international peer comparison analyses (50%). We have used 2014F and 2015F multiples to derive the target price from the international peer comparison. Accordingly, our blended valuation yields a fair value of TL2,489mn, or TL13.0/sh. target price for Akcansa, implying 16% upside potential for a 12-month period.

### Valuation Summary (TLmn)

Method	Equity Value	Weight	Contribution
DCF	2,454	50%	1,227
Int. Peer Comparison	2,524	50%	1,262
<b>Target MCap (12m)</b>			<b>2,489</b>
Current Mcap			2,144
<b>Upside</b>			<b>16%</b>

Source: Ak Investment

## DISCOUNTED CASH FLOW

### Discounted Cash Flow (TLmn)

	'14F	'15F	'16F	'17F	'18F	'19F	'20F	'21F	'22F	'23F
<b>Operating Profit (EBIT)</b>	<b>257</b>	<b>288</b>	<b>306</b>	<b>327</b>	<b>349</b>	<b>373</b>	<b>399</b>	<b>427</b>	<b>458</b>	<b>492</b>
(+) Depr. & Amort	60	61	62	63	65	66	68	70	73	75
(-) Taxes on EBIT	51	58	61	65	70	75	80	85	92	98
(-) Increase in NWC	17	-6	24	26	29	31	33	36	40	43
(-) Capital Expenditures	72	72	75	78	81	85	89	93	98	104
<b>FCF</b>	<b>177</b>	<b>225</b>	<b>208</b>	<b>220</b>	<b>234</b>	<b>249</b>	<b>265</b>	<b>283</b>	<b>301</b>	<b>322</b>
WACC (%)	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Discounted Factor	1.07	1.23	1.41	1.62	1.87	2.15	2.47	2.84	3.27	3.76
<b>Discounted FCFs (2014F-23F)</b>	<b>166</b>	<b>183</b>	<b>148</b>	<b>136</b>	<b>125</b>	<b>116</b>	<b>107</b>	<b>100</b>	<b>92</b>	<b>85</b>
PV of FCFs	1,258									
PV of Terminal Value @ 6% Growth	969									
Net Debt - (end – 2013F)	272									
Value of Participation	183									
Minority Interest	-22									
<b>DCF Equity Value (current)</b>	<b>2,115</b>									
<b>DCF Equity Value (12M)</b>	<b>2,454</b>									
# of Shares Outstanding (mn)	191.4									
<b>Target share price TL – 12M</b>	<b>12.82</b>									

Source: Ak Investment Estimates

## INTERNATIONAL PEER COMPARISON

Akcansa trades at 6.5x and 5.9x participation adjusted EV/EBITDA multiples for 2014F and 2015F, respectively, implying respective discounts of 17% and 16% to its global peer median. On an earnings basis, it trades at respective discounts of 22% and 17% to its peers on 2014F and 2015F. Based on an average of 2014F & 2015F EV/EBITDA and P/E multiples, our international comparison yields a 12-month target equity value for Akcansa of TL2,524mn.

Company	Country	Market Cap (US\$mn)	EV/EBITDA		P/E	
			2014F	2015F	2014F	2015F
Ciments Francais	France	2,773	5.0	4.5	12.5	9.8
Cimpor	Portugal	2,483	8.0	n.a.	6.9	n.a.
Heidelbergcement	Germany	14,772	6.8	6.0	14.0	10.8
Holcim	Switzerland	25,111	7.9	7.1	14.8	12.5
Italcementi	Italy	2,165	6.9	6.1	58.1	19.1
Lafarge	France	21,971	8.0	7.0	15.6	12.0
Vicat	France	3,244	7.7	6.8	13.8	11.2
<b>Developed Peers Median</b>			<b>7.7</b>	<b>6.5</b>	<b>14.0</b>	<b>11.6</b>
Ambuja Cements	India	4,215	7.1	8.1	15.1	14.4
Anhui Conch Cement	China	14,767	5.8	5.1	8.3	7.2
Indocement	Indonesia	6,833	9.1	8.1	14.7	12.9
India Cement	India	276	6.2	5.4	14.5	8.8
Misr Cement	Egypt	288	5.7	5.2	9.2	8.3
Semen Gresik	Indonesia	7,787	10.6	9.5	15.8	14.3
Siam City Cement	Thailand	2,805	11.6	10.7	15.8	14.6
Titan Cement	Greece	2,371	10.4	8.4	57.9	24.1
Yanbu Cement	Saudi Arabia	2,834	10.0	10.2	11.7	11.5
<b>Emerging Peers Median</b>			<b>9.1</b>	<b>8.1</b>	<b>14.7</b>	<b>12.9</b>
<b>Peers' Median</b>			<b>7.8</b>	<b>7.0</b>	<b>14.6</b>	<b>12.0</b>
<b>Akcansa*</b>	<b>Turkey</b>	<b>982</b>	<b>6.5</b>	<b>5.9</b>	<b>11.4</b>	<b>10.0</b>
<b>Pre. / (Disc.) to Peers</b>			<b>-17%</b>	<b>-16%</b>	<b>-22%</b>	<b>-17%</b>

Source: Bloomberg, (\*) Ak Investment Estimates for Akcansa  
Price data as of January 14, 2014

## How do we differ from the consensus?

Estimates (TLmn)	2013E			2014F		
	Our Est.	Cons.	Diff.	Our Est.	Cons.	Diff.
Revenues	1,204	1,261	-4%	1,376	1,388	-1%
EBITDA	268	272	-2%	317	308	3%
Net Income	153	157	-2%	189	184	3%

Source: Bloomberg, Ak Investment Estimates



**Akcansa Summary Financials (IFRS, TLmn)**

Income Statement					Balance Sheet				
	2012	2013E	2014F	2015F		2012	2013E	2014F	2015F
<b>Net Sales</b>	<b>1,056</b>	<b>1,204</b>	<b>1,376</b>	<b>1,459</b>	Current Assets	441	474	561	561
Cost of Goods Sold	851	942	1,057	1,107	<i>Cash &amp; Equivalents</i>	14	19	26	50
<b>Gross Profit</b>	<b>205</b>	<b>263</b>	<b>319</b>	<b>353</b>	<i>Inventory</i>	288	330	376	373
Operating Expenses	47	54	61	65	<i>Trade Receivables</i>	121	117	150	129
EBIT	158	209	257	288	L/T Assets	947	1,010	1,037	1,063
<b>EBITDA</b>	<b>215</b>	<b>268</b>	<b>317</b>	<b>348</b>	<i>Tangible Assets</i>	642	658	670	682
Net Financ. Inc/Exp	-6	-16	-17	-15	<i>Intangible Assets</i>	35	35	35	35
Net Other Inc/Exp	-4	-4	-5	-6	<b>TOTAL ASSETS</b>	<b>1,389</b>	<b>1,484</b>	<b>1,598</b>	<b>1,624</b>
Profit before Tax	149	189	236	268	S/T Liabilities	398	397	460	442
Taxes	-27	-36	-47	-54	<i>Financial Debt</i>	224	261	261	261
Minority Interest	1	1	1	1	<i>Trade Payables</i>	147	88	150	133
<b>Net Profit</b>	<b>120</b>	<b>153</b>	<b>189</b>	<b>214</b>	L/T Liabilities	67	120	120	120
<b>Nominal Gr. (YoY)</b>	<b>2012</b>	<b>2013E</b>	<b>2014F</b>	<b>2015F</b>	<i>Financial Debt</i>	0	30	30	30
Net Sales	5%	14%	14%	6%	Shareholders' Equity	911	955	1,006	1,050
EBITDA	11%	24%	19%	10%	Minority Interest	12	12	12	12
Net Profit	20%	28%	23%	13%	<b>TOT.LIA.&amp;SH.EQU.</b>	<b>1,389</b>	<b>1,484</b>	<b>1,598</b>	<b>1,624</b>
<b>Margins</b>	<b>2012</b>	<b>2013E</b>	<b>2014F</b>	<b>2015F</b>					
Gross Profit	19%	22%	23%	24%	<b>Key Metrics</b>	<b>2012</b>	<b>2013E</b>	<b>2014F</b>	<b>2015F</b>
EBIT	15%	17%	19%	20%	W.Capital days	72	93	97	92
EBITDA	20%	22%	23%	24%	Capex/sales	8%	6%	5%	5%
Net margin	11%	13%	14%	15%	Net debt (TLmn)	211	272	265	241
					Net debt / equity	0.23	0.29	0.26	0.23
					Net Debt / EBITDA	0.98	1.02	0.84	0.69
<b>Cash Flow Statement</b>	<b>2012</b>	<b>2013E</b>	<b>2014F</b>	<b>2015F</b>	ROA (%)	9%	11%	12%	13%
Profit before tax	149	189	236	268	ROIC (%)	11%	14%	16%	18%
Depreciation	57	59	60	61	ROE (%)	14%	16%	19%	21%
Changes in WC	-76	-97	-17	6	Dividend payout (%)	-92%	-90%	-90%	-90%
<b>Operating Cash Flow</b>	<b>130</b>	<b>151</b>	<b>279</b>	<b>335</b>	Dividend yield (%)	5%	6%	8%	9%
Capex	-81	-75	-72	-72	Effect.tax rate (%)	18%	19%	20%	20%
Change in debts	75	67	0	0	<b>Valuation</b>	<b>2012</b>	<b>2013E</b>	<b>2014F</b>	<b>2015F</b>
Dividends paid	-110	-138	-170	-193	EV/Sales	2.0	1.7	1.5	1.4
Other	-109	-525	88	47	EV/EBITDA	9.6	7.7	6.5	5.9
<b>Financing Cash Flow</b>	<b>-225</b>	<b>-671</b>	<b>-155</b>	<b>-218</b>	PE	17.9	14.0	11.4	10.0
Cash-beginning of per.	16	14	19	26	FCF yield (%)	12%	12%	10%	10%
Cash-end of period	14	19	26	50					



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