

Aksa Enerji

NEUTRAL

 Current price: TRY2.95
 12-mo T.Price: TRY3.34

 Analyst Hakan Deprem
 +90 (212) 334 94 62
 Hakan.deprem@akyatirim.com.tr

Revisions to power generation portfolio

- **Rating downgraded to Neutral following exclusion of hydro projects.**

During yesterday's conference call to discuss the 2015 budget, Aksa Enerji management stated that the 1st 135MW phase of the Bolu Goynuk lignite-fired power plant would enter operation in April (previously: 1Q15) with the 2nd phase to be up-and-running in June 2015. We have revised down our 2015 EBITDA forecast from TRY440mn to TRY421mn in view of a downward revision in projections for electricity generation from the Bolu Goynuk lignite-fired power plant (from 1.2 TWh to 1.0 TWh) in 2015. Furthermore, to utilize resources for more profitable projects (such as potential lignite-fired power plant projects) instead of river-type hydro projects, which depend highly on levels of precipitation, the management decided to cancel 5 river-type hydro projects (with a total capacity of 185MW), which had been licensed. After excluding these power plant projects from our valuation, we have reduced our 12-month target price for the company from TRY3.68 to TRY3.34. Because of the limited upside potential, we downgrade our rating for the company from Outperform to Neutral.

- **2015 budget figures.** Aksa Enerji targets 10.3TWh of production and 12.7 TWh of sales, 65% of which is expected to be sold through bilateral agreements and 35% in the spot market. The management guides 2015 revenues of TRY2.5bn and EBITDA of TRY420-430mn. The management does not expect any change in natural gas prices in 2015.

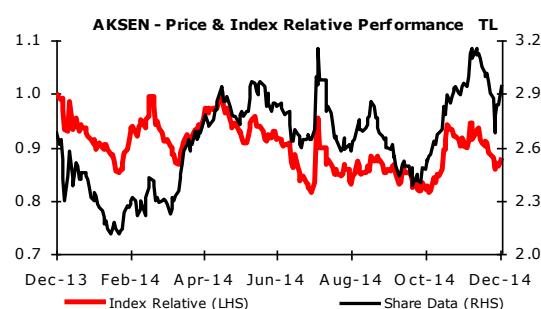
- **Potential projects could add to valuation.** Our base case scenario assumes that the company's total installed capacity will increase from a current 2,140MW to 2,521MW by the end of 2016. Meanwhile, the management will decide on natural gas power plant capacity extensions (1,041MW) depending on the developments in electricity tariffs and natural gas prices in the coming years. We have not currently included the Sahinkaya hydro power plant project (85MW), now at the pre-licensed stage, or potential lignite-fired power plant projects, currently in the evaluation stage, into our valuation. Any solid developments on these projects may bring upside to our forecasts.

- **Exports to Iraq could bring upside.** Aksa Elektrik, Aksa Enerji's sister company, had won the tender to export 1TWh electricity to Iraq in June 2013. Aksa Enerji is the supplier of Aksa Elektrik. The initiation of exports on the back of any political normalization in the region could also bring upside to our forecasts.

Stock Data

Ticker (Reuters, Bloomberg)	AKSEN.IS, AKSEN TI
Market Cap. (TLmn)	1,809
Number of Shares (000)	613,169
Free Float	21%
Daily Vol. (3 Month, TRY thou)	12.1
Net Debt (2014/09, TRYmn)	1,888
BIST-100 Index (TL)	85,144 / 36,747

Stock data is as of 28 November 2014



Stock Performance

	1W	1M	3M	1Y
TL	2.8%	-0.3%	13.9%	9.7%
Index Rel.*	0.0%	-2.5%	2.8%	-12.0%

* vs. BIST Total Return Index

Forecasts (TLmn)

	2013	2014F	2015F	2016F
Net Sales	1,786	1,968	2,586	2,766
EBITDA	312	337	421	511
EBITDA marg.	17.5%	17.1%	16.3%	18.5%
Net Profit	-132	76	59	143
EV/Sales	1.9	1.9	1.5	1.4
EV/EBITDA	10.7	11.2	9.1	7.3
P/E	-13.7	23.9	30.7	12.6

Shareholding Structure

Kazanci Holding	61.98%
Goldman Sachs	16.62%
Other	0.01%
Free Float	21.39%

INVESTMENT THEME

We have revised down our 2015 EBITDA forecast from TRY440mn to TRY421mn due to a downward revision in our assumptions for the Bolu Goynuk lignite-fired power plant's power generation (from 1.2 TWh to 1.0 TWh) in 2015. After excluding 5 river-type hydro power plant projects (185MW) from our valuation, we reduce our 12-month target price for the company from TRY3.68 to TRY3.34. Because of the limited upside potential, we downgrade our rating for the company from Outperform to Neutral. Based on our forecasts, the shares trade at a 2015 EV/EBITDA of 9.1x, compared to the average of 8.5x for emerging market peers. Note that we have only included confirmed projects into our valuation. Under our base-case scenario, the company's total installed capacity will increase from a current 2,140MW to 2,521MW by the end of 2016. On the other hand, any solid developments in the potential projects (i.e. lignite-fired power plant, dam-type hydro power plant or extension in natural gas fired power plant projects) could bring upside to our forecasts.

Revisions to forecasts

TL mn	Previous		New		Consensus	
	2014F	2015F	2014F	2015F	2014F	2015F
Revenues	1,968	2,332	1,968	2,586	2,034	2,484
EBITDA	340	440	337	421	345	461
Net profit	79	79	76	59	65	129

Source: Ak Investment Forecasts, Bloomberg

Key highlights of the conference call held yesterday... The management discussed their 2015 projections for both the market and Aksa Enerji during the conference call.

Market expectations

- **Demand:** Aksa Enerji expects total electricity demand in Turkey to grow by 4.5% in 2015, in line with our projection.
- **Supply:** Turkey's current total installed capacity stands at 69GW following a 4.8GW increase in the January – November period. The management forecasts growth of 4.0-4.5GW in Turkey's total installed capacity in 2015.
- **Tariffs:** The management does not expect any change in Botas' natural gas prices in 2015 compared to our forecast of a 10% hike as of July 2015 (after the general election). Furthermore, Aksa Enerji forecasts a spot market electricity tariff of TRY165/MWh for 2014 and TRY173/MWh for 2015. Note that we project spot market electricity tariffs of TRY167/MWh in 2014 and TRY178/MWh in 2015.

Aksa Enerji figures

- **Sales volume:** The management expects total sales volumes of 12.7TWh in 2015 through 10.3TWh of power generation and 2.4TWh in electricity trade (Ak Investment forecast for total sales volume: 12.6TWh). Bilateral agreements are expected to constitute 65% of total sales with the remainder being sold in the spot market. The first 135MW phase of the Bolu Goynuk lignite-fired power plant (total 270MW capacity) will enter operation in April 2015 (1Q15 according to the previous guidance) with the second 135MW phase entering operation in

June 2015. The slight delay in the start-up date of the power plant was due to safety checks being carried out by the Energy Ministry for both the lignite mine and the power plant, in connection with recent regulatory changes. The management forecasts 1.0-1.1TWh of power generation at the Bolu Goynuk power plant in 2015, nearly doubling to 2.0TWh per annum from 2016.

- **Revenue and EBITDA:** The management expects an average electricity tariff of TRY199/MWh (our own forecast; TRY202/MWh) with total revenues of TRY2.5bn in 2015 (our own forecast; TRY2.6bn). The management guidance for 2015 EBITDA is in a range of TRY420-430mn compared to our own forecast of TRY421mn (Previously TRY440mn). Furthermore, the management expects Bolu Goynuk to contribute TRY100mn to the company's EBITDA generation in 2014 and TRY180mn in 2015. Note that the management guides for around TRY340mn of EBITDA in 2014, in line with our forecast of TRY337mn.
- **Installed capacity:** Aksa Enerji has a total installed capacity of 2,140MW (broken down into 77% natural gas, 11% wind, 11% fuel-oil and 1% hydro). Wind farms with a total of 24MW in capacity (the 3MW Kiyikoy wind farm, the 4MW capacity Kapidag wind farm and the 17MW Hatay Sebenoba wind farm) are expected to be up-and-running in early 2015. Furthermore, the management is planning to complete the acquisition of the 12MW Datca wind farm from the main shareholder, Kazanci Holding, by the end of 2015. By only considering confirmed projects, we forecast that the company's total installed capacity will reach 2,446MW by the end of 2015 (broken down into 67% natural gas, 11% lignite, 11% wind, 10% fuel-oil and 1% hydro), and 2,521MW by the end of 2016 (broken down into 65% natural gas, 11% lignite, 11% wind, 10% fuel-oil and 4% hydro). Note that in order to utilize resources for more profitable projects (such as the potential lignite-fired power plant project) instead of river-type hydro projects - whose generation volumes depend largely on levels of precipitation - the management decided to cancel the Sansa HEPP (85MW), Indere HEPP (30MW), Efrenk HEPP (20MW), Yamanli HEPP (24MW) and Kor HEPP (26MW) projects, which had been licensed. On the other hand the management is planning to include the Sahinkaya dam-type HEPP (85MW) project (with an estimated US\$ IRR of 12-13%), which is at the pre-licensed stage and expected to be in operation after 2017, into the power generation portfolio. Note that we have also excluded the Sansa, Indere, Efrenk, Yamanli, and Kor hydro power plant projects from our valuation.
- **Capex:** The management guides for TRY270-300mn of capex for 2015.
- **Exports to Syria and Iraq could bring upside:** Aksa Elektrik, Aksa Enerji's sister company, has an agreement to export 2TWh/y electricity to Syria. Aksa Enerji is the supplier of Aksa Elektrik. Exports to Syria were halted in October 2012 due to the damage to transmission lines in Syria. The agreement is still valid and a resumption of exports to Syria would bring upside in our model. Further, Aksa Elektrik had won the tender to export 1TWh electricity to Iraq in June 2013. Although there are no expected short-term developments, the initiation of exports on the back of a political normalization in these regions could also bring upside to our forecasts.

Aksa Enerji Summary Financials (TRYmn)

Income Statement	2013	2014F	2015F	2016F	Balance Sheet	2013	2014F	2015F	2016F
Net Sales	1,786	1,968	2,586	2,766	Current Assets	520	478	622	691
Cost of Goods Sold	-1,566	-1,729	-2,290	-2,391	<i>Cash & Equivalents</i>	22	26	65	114
Gross Profit	220	238	296	375	<i>Trade Receivables</i>	142	28	37	39
Operating Expenses	-20	-21	-23	-25	<i>Inventory</i>	250	297	394	411
EBIT	200	217	273	349	L/T Assets	2,356	2,961	3,085	3,123
EBITDA	312	337	421	511	<i>Tangible Assets</i>	2,064	2,669	2,794	2,831
Net Financ. Inc/Exp	-346	-136	-189	-164	<i>Other LT Assets</i>	292	292	292	292
Net Other Inc/Exp	-5	-2	-11	-6	TOTAL ASSETS	2,876	3,439	3,708	3,815
Profit before Tax&Min. Interest	-151	79	73	179	S/T Liabilities	630	798	882	896
Taxes	17	-4	-15	-36	<i>Financial Debt</i>	409	500	500	500
Minority Interest	2	0	0	0	<i>Trade Payables</i>	178	255	339	353
Net Profit	-132	76	59	143	L/T Liabilities	1,262	1,583	1,708	1,658
Nominal Gr. (YoY)	2013	2014F	2015F	2016F	<i>Financial Debt</i>	1,154	1,475	1,600	1,550
Net Sales	-3%	10%	31%	7%	Shareholders' Equity	985	1,061	1,120	1,264
EBITDA	-3%	8%	25%	22%	Minority Interest	-1	-2	-2	-3
Net Profit	n.m.	n.m.	-22%	143%	TOT.LIA.&SH.EQU.	2,876	3,440	3,708	3,815
Margins	2013	2014F	2015F	2016F					
Gross Profit	12.3%	12.1%	11.5%	13.5%	Key Metrics	2013	2014F	2015F	2016F
EBIT	11.2%	11.0%	10.6%	12.6%	W.Capital days	52	28	12	14
EBITDA	17.5%	17.1%	16.3%	18.5%	Capex/sales	36%	37%	11%	7%
Net margin	-7.4%	3.9%	2.3%	5.2%	Net debt (TLmn)	1,541	1,948	2,034	1,935
					Net debt / equity	1.56	1.84	1.82	1.53
					Net Debt / EBITDA	4.96	5.18	4.73	3.88
Cash Flow Statement	2013	2014F	2015F	2016F	ROA (%)	-5%	2%	2%	4%
Net Profit	-133	76	59	143	ROIC (%)	6%	6%	7%	9%
Depreciation	112	120	148	162	ROE (%)	-13%	7%	5%	12%
Changes in WC	648	123	-21	-6	Dividend payout (%)	0%	0%	0%	0%
Operating Cash Flow	627	318	186	299	Dividend yield (%)	0%	0%	0%	0%
Capex	-640	-730	-272	-200	Effect.tax rate (%)	n.m.	5%	20%	20%
Change in debts	-45	350	125	0					
Dividends paid	0	0	0	0	Valuation	2013	2014F	2015F	2016F
Other	40	65	0	-50	EV/Sales	1.87	1.91	1.49	1.35
Change in cash & equivalents	-18	4	39	49	EV/EBITDA	10.7	11.2	9.1	7.3
Cash-beginning of per.	41	22	26	65	PE	n.m.	23.9	30.7	12.6
Cash-end of period	22	26	65	114	FCF yield (%)	-1%	-23%	-5%	5%

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