

Otokar

April 28, 2009

Better than Expected

BUY (L/T) MARKETPERFORM(S/T)

Current Price (TRL)	10.40	Target Price (TRL)	12.00		
Market Cap (TRL / US\$ mn)	250 / 154	YoY Abs / Rel Return (%)	-26 / 9		
P/E (2009E) (TRL)	11.7	EV/EBITDA (2009E) (TRL)	6.4		
(TRLmn)	1Q09	1Q08	yoy Δ	4Q08	qoq Δ
Revenues	117.5	119.9	-2%	123.9	-5%
EBITDA	28.2	16.4	72%	12.7	122%
Net Earnings	14.6	17.8	-18%	-4.7	n.m.
EBITDA Margin (%)	24.0	13.7	10.3 pp	10.2	13.7 pp

How were the results?

- Otokar posted TRL117.5mn of net revenues, down 2% yoy; TRL28.2mn EBITDA, up 72% yoy; and TRL14.6mn net earnings, down 18% yoy in its 1Q09 IFRS financials. While the topline is slightly weaker than our estimate, the stronger operating profit has paved the way for a net profit that is ahead of our expectations. The Company's strong export performance and the surge in gross and operating profitability stemming from deliveries of defence vehicles in the quarter, as well as the plummeting commercial vehicle sales, are the highlights of Otokar's 1Q09 earnings.

Comment

- Otokar's revenues, which declined 2% yoy to TRL117.5mn were supported by export revenues that almost tripled yoy to TRL69mn, thus constituting 59.1% of revenues in 1Q09, surpassing domestic revenues of TRL48mn (50% yoy decline). Armoured vehicle sales have virtually remained unchanged, but its composition have been geared towards higher profitability models, such as the "Cobra", a flexible armoured vehicle model. Land Rover Defender sales have risen to 19 units, from 1 unit in 1Q08 upon the completion of the revisions in the models and reinstitution of the model's sales.
- The Company's commercial vehicle segments sales performance plummeted amidst a very weak domestic demand backdrop. Midibus and minibus segments sales volume have declined by 64% yoy and 71% yoy respectively to 113 and 46 units. The bus and trailer sales were similarly weak, declining 80% yoy and 76% yoy in volume terms.
- Regardless, gross profitability have surged by 15.5 pps yoy to 41.5% while EBITDA margin improved by 10.3 pps yoy to 24.0%, thus denoting a 72% yoy rise in EBITDA to TRL28mn thanks primarily to armoured vehicle deliveries. Otokar's opex/sales have surged to 19.5% in 1Q09 from 13.4% in 1Q08 on the back of the sharp rise in sales and marketing costs as well as the rise in R&D expenses. The Company has recently introduced its mine protected armoured vehicle "Kaya", which has been submitted to tenders of the SDIF.
- Otokar's bottom line has partially reflected higher operating profitability, largely due to the TRL9.1mn net FX losses, mainly attributable to the net FX losses related to the loans undertaken. Otokar's net debt standing improved to TRL124mn from TRL144mn from a quarter earlier, stemming from the payments received for its contract deliveries.

Net/Net

- Otokar reported robust profitability 1Q09 financials primarily attributable to delivery of defence vehicles denoting higher margins. While the advance payment regarding the Main Battle Tank development project alongside the anticipated SDIF tenders will be supportive of the Company's revenue and profitability performance in FY09, Otokar's commercial vehicle segments is expected to feel the full impact of the contraction in the domestic market, keeping in mind the Company not benefitting from the tax break provided to mainly passenger cars. We maintain our **BUY (L/T)** and **MARKETPERFORM (S/T)** ratings on Otokar.

Research Analyst

Koray Pamir +90 212 317 2706
koray.pamir@efgistanbulsec.com

Otokar - Announced Financials (IFRS Basis; TRLmn)

Income Statement	1Q09	1Q08	YoY Δ	4Q08	QoQ Δ
Net Sales	118	120	-2%	124	-5%
<i>Domestic</i>	48	96	-50%	82	-41%
<i>International</i>	69	24	187%	42	65%
COGS	(69)	(89)	-23%	(98)	-30%
Gross Profit	49	31	56%	26	86%
EBITDA	28	16	72%	13	122%
Operating Exp.	(23)	(16)	43%	(15)	48%
Operating Profit	26	15	71%	11	139%
Net Other Income	(1)	(1)	15%	(1)	-2%
Net Financial Exp	(9)	8	n.m.	(21)	-56%
Taxes	(2)	(5)	-65%	6	n.m.
Discont. Operations	0	0	n.m.	0	n.m.
Minority Interest	0	0	n.m.	0	n.m.
Net Profit	15	18	-18%	(5)	n.m.
Margins					
<i>Gross</i>	41.5%	26.0%	15.5 pp	21.2%	20.3 pp
EBITDA	24.0%	13.7%	10.3 pp	10.2%	13.7 pp
<i>Operating</i>	22.0%	12.6%	9.4 pp	8.7%	13.3 pp
<i>Eff. Tax Rate</i>	9.8%	20.5%	-10.6 pp	n.m.	n.m.
Net	12.4%	14.8%	-2.4 pp	-3.8%	16.2 pp
Balance Sheet	1Q09	1Q08	YoY Δ	4Q08	QoQ Δ
Cash & Mkt. Sec.	168	2	n.m.	66	154.1%
Fin. Debt	292	97	199.2%	210	38.6%
Net Debt	124	96	29.7%	144	-14.1%
Accounts Rec.	163	168	-2.9%	174	-6.3%
Inventories	135	70	92.4%	117	15.2%
Accounts Payable	31	30	3.4%	56	-45.3%
LT Assets	167	88	88.5%	164	1.4%
LT Liabilities	5	5	-4.9%	4	4.6%
Total Assets	620	347	78.8%	508	22.0%
Equity	162	160	1.4%	148	9.9%
Financial Ratios	1Q09	1Q08	YoY Δ	4Q08	QoQ Δ
Debt/Equity	281.4%	116.2%	165.2 pp	243.4%	38.0 pp
Receivable Days	125	128	-3	129	-4
Inventory Days	177	72	105	110	66
Payable Days	40	30	10	53	-13
Net Work. Cap. Days	262	169	92	187	75

Source: The Company, EFG Istanbul Research

Otokar Sales Volume Summary (Units)

	Production			Sales		
	1Q09	1Q08	YoY Δ	1Q09	1Q08	YoY Δ
Minibus	33	193	-83%	46	161	-71%
Midibus	173	332	-48%	113	311	-64%
Bus	22	62	-65%	19	97	-80%
LR	9	1	n.m.	14	1	n.m.
Armored Vehicles	93	117	-21%	115	119	-3%
Trailer	67	295	-77%	59	244	-76%
Total	397	1,000	-60%	366	933	-61%

Source: The Company