

TOFAŞ

TÜRK OTOMOBİL FABRİKASI A.Ş.

TOFAŞ Türk Otomobil Fabrikası A.Ş. 1H23 Financial Results Conference Call and Live Webcast

Thursday, 27th July 2023, 17:00 TR

Conductors:

Mr. Cengiz Eroldu, Chief Executive Officer
Mr. Fabrizio Renzi, Chief Financial Officer
Mr. Mehmet Ağyüz, Chartered Financial Analyst -
Investor Relations Manager

Conference Call Conducted by Chorus Call Hellas



CHORUS CALL HELLAS
PROVIDER OF TELECONFERENCING SERVICES

TEL: +30 210 94 27 300

FAX: + 30 210 94 27 330

Web: www.choruscall.com

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Mina your Chorus Call operator. Welcome and thank you for joining the TOFAŞ Türk Otomobil Fabrikası A.Ş conference call and Live Webcast to present and discuss the First Half 2023 Financial Results. At this time, I would like to turn the conference over to, Mr. Cengiz Eroldu, CEO, Mr. Fabrizio Renzi, CFO, Mr. Mehmet A. Ağyüz, CFA - Investor Relations Manager.

Mr. Renzi, you may now proceed.

RENZI F: Hello, good afternoon. Thank you, operator. Thank you all for joining our call.

In the first semester 2023, we have consolidated our financial and commercial performance and reached the record high result of our company in our currency. Profit before tax amount to TL8.2 billion. That means more than double compared to the results achieved in 2022. PBT margin stands at 19.7%, up 7.7% compared to the H1 2022, in line with the good trend initiated in the last quarter 2022. As a result of these achievements, we decided to raise our sustainable PBT at 14%.

The cash position remained very solid. And we are ready to support the acquisition of Stellantis Turkey in the second part of the year. The main driver of this excellent financial result is the performance in the local market that now account for 80% of the total business of the company. In particular, on the PC segment, with a market share of 16.3%, we remain the leader with an expansion of 1.5%, when compared with 2022.

Remarkable, the increase in trend of the imported model that accounts now for 80% of our sales with an excellent performance of Alfa Romeo brand with the new model, Tonale. Our electrification plan is moving fast. And in the first six months, we have achieved good results with the 500 BEVs and Alfa Romeo Tonale plug-ins. This is on top to our offer of mild-hybrid solutions.

Regarding exports, we have kept unchanged our vision for the Full Year. We are targeting to reach 70,000-80,000 units. The first semester was weak for the discontinuation of Doblo. But we expect to recover in the remaining part of the year, thanks to the good performance of Tipo model in the MENA region. The penetration of Tipo in the North Africa market is a good news for the saturation of the plan in the coming years.

In terms of production, we have produced 123,000 units in the first six months, slightly above the same period 2022. We have terminated the production of Doblo in May. But thanks to our good flexibility, we were able to compensate this effect with Fiorino.

In our plant in Bursa, we have started a preliminary activity to arrange the new LCV line for the K0 model. And we will use the summer break to accelerate on this regard.

Last but not least, the strategic agreement announced on March the 1st. The parties are working hard to finalize as soon as possible the acquisition agreement of the Stellantis Turkey. But as you know well, there are

some regulatory steps that we need to respect before the closing, which are not in our control.

Regarding the new model, K0, as I mentioned before, we are at the final stage of the negotiation. But our engineers are already working in order to make possible the start of production of this model in the Q4 2024.

Now I will give the floor to Mehmet for the full presentation. And then we can take as usual your question in the Q&A. Thank you. Please, Mehmet.

OPERATOR: Mr. Ağyüz,, you have the floor, please.

AĞYÜZ M.: Hi. Thank you, Mr. Renzi. Good afternoon, and good morning, everybody. We start with the production. In the First Half, Turkish automotive sector continued to grow. The production was up by 13%, reaching to 735,000 units, thanks to also easing in the supply shortages.

In the meantime, Tofaş represented around 17% of the industry with a total production of 123,000 units. This suggests a 4% increase compared to the same period of last year. In terms of mix, our production mix has shifted towards passenger car. Due to the expiry of the LCV contract, now passenger car production constitutes 70% of our production, compared to around 51% in the same period of last year.

Our total shipments grew faster than our production. And it was up by 9% in the First Half, reaching to 131,000 units. And this is thanks to remarkable

performance in the local markets, which our local shipments surged by 66%, compared to the same period of last year. And this compensated for the 53% retreat in our export shipments.

In terms of shipment volumes by our business, the most notable change occurred in our export business, where LCV shipments now represent less than 50%, around 43% of our export business, suggesting around 25 percentage point decline, compared to the same period due to the discontinuation of Doblo.

Moving on to domestic markets. Domestic markets continued to perform very strongly in the Second Quarter result following very strong results in the First Quarter. And in the First Half, it was up by 56%, reaching to slightly below 560,000 units in the First Half of the year.

And growth in the second quarter was similar to the First Quarter. And the growth was evenly distributed between passenger cars and the LCV, where passenger car shipments grew by around 55% and LCV shipments grew slightly better at 58%, compared to the same period of last year.

This shows the monthly evolution of sales. And as you can see, there is an accelerating pace in the monthly local shipments. And this phenomena has been supported by inflation hedging by the consumers, given below inflation deposit rates as well as front-loaded

demand by the consumers in a weakening Turkish lira environment.

At Tofas, in the First Half, we performed better than the market with 64% growth in our total shipments, reaching to 104,000 units. On the passenger car side, thanks to strong performance of our flagship Egea model, we outperformed the market with 71% growth. And despite the discontinuation of Doblo, our export shipments in the local market was close to the overall market growth, slightly below 50% in the First Half of the year. This shows the monthly evolution, and it shows the similar trend to the overall local market for our shipments.

In terms of market share, Egea model continues to perform very strongly due to its stronger brand equity in the market. And as a result, that we are been continuing our market leadership since the second half of last year with a market share of 16.3% in the First Half. And this is around 150 basis points better, compared to last year.

Also, Stellantis brands performed remarkably. And their market share overall in total, market share improved by 830 basis points, reaching to slightly below 36% in the First Half of the year.

On the LCV side, we maintain our number two position in the market with 24.6% market share with a slight retreat in our market share by around 180 basis points. And this is despite the fact that ceasing of the

production of Doblo. But the strong performance of our small LCV partially compensated this gap in our market share.

So, in total, we continue to be a distant market leader with 18.2% market share, which is around 80 basis points better, compared to last year. Including premium brands, Tofas market share also improved by 90 basis points to 18.7%. And overall, in total, LV market share of Stellantis surged by 840 basis points and reached to 38.3% in the First Half of the year.

Moving on to export business. In the First Half, overall, registrations in Europe recovered in PC and the LCV side. Passenger car registrations recovered by 18%, also thanks to low base of last year from the component shortages. And also, LCV shipments recovered by around 13% as supply chain issues also eased on that side.

At Tofas, our export volumes were down by 53% to around 27,300 units. And this was mainly driven by 70% decline in our LCV shipments due to the expiry of Doblo, whereas on the PC side, production constraints also continued to affect, albeit to a lower extent, our passenger car shipments, which was down around 18%, compared to the same period of last year. Our export volumes evolution on a monthly basis, you could track it here.

In terms of end markets, one phenomena, which has been continuing in the last couple of years has actually

gained further pace. And MENA region now accounts almost 24% of our export shipments, which was around 11%. And this is also affected by discontinuation of Doblo to the NAFTA region also impacted this chart. And Italy remains our main market with 44% of our shipments in the First Half of the year.

In terms of shipment volumes by model, on the left-hand side, our export business, we shipped around 31,000 less. And you can see the main driver of this is Doblo and Ram ProMaster City, which we shipped around 26,000 units less.

On the right-hand side, our domestic business, we performed remarkably and we shipped 41,000 units more at around slightly below 104,000 units. And the main outperformer here is our continued performance of our Egea model, which we shipped 28,000 units more, which now constitutes almost close to 70% of our local business.

And on the other hand, Fiorino, despite its age, continues to perform remarkably. And we shipped 10,000 units more there. Also, coming from a lower base, our imported vehicles also rebounded very strongly and now constitutes almost 7.5% of our local business. So all-in-all, we shipped 10,000 units more and we shipped around 131,000 units in the First Half of the year.

Moving on to our financial performance. Overall, 9% growth in our shipments translated into 62% growth in

revenues, reaching to around TL.42 billion. And the delta between our shipments and the revenue growth was driven by weaker lira and the reflection of the cost increases to our prices in the local market.

Our EBITDA growth was parallel to the revenue growth at 68%, reaching to TL.7.2 billion. And our main KPI, profit before tax, surged by 165%, compared to the same period of last year, reaching to TL.8.3 billion and is a record number also in hard currency.

In terms of our revenue growth profile, the split was the 62% growth was enabled by 160% growth in our local business compensated for the retreat in our export business due to the lower volumes. And strong domestic revenue performance was driven by a combination of strong volume growth as well as healthy pricing in the local market. As a result of that, in the First Half, our turnover reached TL.42 billion.

In terms of profitability, as you can see, all metrics from gross profit to PBT, we were managed to improve our margins on a year-over-year and Q-on-Q basis and reaching historical high figures. And the most important metric here is the profit before tax. And our PBT margin in the second quarter reached an all-time high figure of 22.2%. And in the First Half, it was 19.7%, which is 770 basis points better than last year.

In addition to very strong performance on operational level due to the local market performance, higher financial income on the back of growing cash pile on our

balance sheet also supported this performance on the PBT line.

Our Net Profit Growth was slightly lower than the PBT due to higher tax. Nevertheless, it grew well above inflation with 145% growth, reaching to TL 7.4 billion while also net margin expanded by 600 basis points, reaching to 17.5% in the First Half of the year. In the Second Quarter alone, also net profit growth was above inflation with 116% growth year-over-year, reaching to an all-time high figure of TL 4.9 billion. This is also, in the hard currency terms, historic high figures in our history.

This is a snapshot of our P&L. And you can see here is the healthy growth at the top line flow through to the operational and bottom-line level at a better rate with margin expansion across the board.

On our balance sheet, we have a very strong and healthy balance sheet ahead of the acquisitions as well as our capex cycle. We continue to generate significant amount of cash flow. And our cash and cash equivalents grew by more than 30% to TL 16.5 billion as of the First Half of the year. And as a reminder, we distributed more than TL 3 billion of dividends in the First Half of the year. And we have a very healthy position going into the new investment cycle.

Our financial position also remains very solid with around north of EUR500 million at the end of June. And we continue to manage working capital very carefully

and in a very disciplined way. And we run a minus EUR16 million of net working capital at the end of June.

Moving on to Capex. We spent EUR19 million of Capex in the First Half, bulk of which was constituted from our Egea investments as well as structural. As you know that the announced K0 investment, we will be start , we are planning to start investment in the Second Half. So, this figure should be increasing notably in the second half of the year.

Moving on to outlook. As a result of very strong demand in the local markets, we decided to increase our guidance. And we are increasing our local market guidance by around 11% to the mid-level of 1 million units. And also, in parallel to that, we are raising our own volumes by around 7% to a midpoint of 195,000 units.

We are keeping our export shipments the same at 70,000 to 80,000 units. And as a result of the increase in our local volumes, we are increasing our production volumes slightly to 235,000 to 255,000 units. We are maintaining our CAPEX unchanged at EUR125 million. And considering very strong profitability metrics, we decided to raise our sustainable PBT margin guidance from above 12% to 14% for the time being.

This is the end of my presentation. And we are happy to take your questions. Operator?

OPERATOR: Thank you. The first question is from the line of Ignebecili, Murat with HSBC. Please go ahead.

IGNEBEKCILI M.: Hello. Thank you for the opportunity. Congratulations for the great results. One small question about your guidance. You mentioned about 14% sustainable PBT margin. So, I guess, this assumes the expected consolidation impact of Stellantis Turkey and distribution, right? So, on a consolidated basis, even after this inclusion, you're assuming this margin? This is my first question.

RENZI F.: Okay.. Fabrizio Renzi speaking. Thank you. I can take this question. Okay, we increased the sustainable PBT to 14%, of course, having a look to the result of the first semester. But we know that this is an important parameter for you. So, we are a bit conservative. So, what I mean is that most probably this year, we can achieve something more than 14%. But we believe that this 14% can be sustainable also in 2024 after the consolidation of our business with Stellantis Turkey.

So, we have two different business model as you know. So, we are locally producer, manufacturer. They are basically a national sales company, or they import and distribute. But we believe that 14% is absolutely achievable. So there, Stellantis Turkey is reaching important results. They have very, very attractive models. So yes, the reply to your question is 14% is valid also for after the consolidation.

IGNEBEKCILI M.: Thank you very much. Second question is about your outlook in the domestic market. Now, latest news flow suggests that some easing in second-hand market

demands and people are seeing cars as less of an investment vehicle. I know the ramifications of this will be probably seen maybe Fourth Quarter. But on a broader perspective, assuming from your earlier comments, I remember the leasing market is quite slow this year, would you expect the leasing market demand to support your domestic volumes in 2024 or still that's a distant expectation? Thank you.

EROLDU C.:

Thank you for the question, Cengiz is speaking. So first of all, the market demand of 1 million doesn't require any support. Because after the first semester, also this month, we are having a strong demand in the market. Then also, the month of July, we will be higher than 100,000 units.

So, if you sum six months and plus July, so we will have more than 650,000 units in the first seven months of the year. So, after achieving this number, this market will go to 1 million minimum. Because in the normal conditions, if there is no any calm-down in the market, the trend was showing 1.3 million or, let's say, even more. So, for this reason, we are not worried about 1 million market target of this year.

On top of this, also for the Fiat brand, the situation is different than the other brands. So, we have the 20% of market share. And we are the most affordable range of two products into the automotive market in Turkey. So regardless on the size of the market, so we will continue to perform in a very strong way. Thank you.

- IGNEBEKCILI M. : Thank you very much.
- OPERATOR: The next question is from the line of Kilickiran, Hanzade with JPMorgan. Please go ahead.
- KILICKIRAN H.: Good afternoon. Thank you much for the presentation. I have a follow-up on the domestic demand. Actually, it's a kind of technical question. Recently, the government imposed some caps on the auto loans in Turkey. And I wonder if this could have any impact on the financing arm of your side? I mean, all the financing arm of Tofas can continue to lend and to lay the growth?
- EROLDU C: Hanzade, first of all, in the market, there is not any loan since five, six months.
- KILICKIRAN H.: All cash payments then?
- EROLDU C: There is not any impact of what we are doing.
- KILICKIRAN H.: Okay.
- EROLDU C.: Because it was not -- it is not available in the market in auto loans or it was very, very limited. Now this new rule does not change the game.
- KILICKIRAN H.: Okay, super. And last time, you haven't shared much details about your potential production for K0. I mean, is there now much more clarity about the capacity? How could be the split with domestic and export and when it could start, I mean?

EROLDU C.: Not yet. But sorry, for this issue, we need to make a public disclosure. But as Fabrizio said, we are working hard on this topic. And I hope it's very soon that we are going to make public disclosure about it.

KILICKIRAN H.: Okay. Then when you make the public announcement, you are going to also upgrade the CAPEX guidance for this year probably, right, I mean, because you don't change the capex much?

EROLDU C.: No, the capex guidance includes also K0.

KILICKIRAN H.: K0. All right. Okay. Thank you very much.

EROLDU C.: Thank you.

OPERATOR: The next question is from the line of Lanka, Sashank with Bank of America Merrill Lynch. Please go ahead.

LANKA S.: Yes. Thank you for the presentation and the opportunity to ask questions. I have two questions from my side. The first one is on your export guidance, which is 70K to 80K units. I think the First Half, you did around 27K units. So, I think your guidance shows that there's going to be a sequential pickup in the Second Half. So, I just wanted to know what's driving that.

The second question is on your foreign exchange gains. In the financial income, they were quite significant in this quarter versus what we saw last quarter. So how should we think about these gains going into the rest of the year? Thank you.

RENZI F.: Fabrizio speaking. Okay, for the exports, okay, question is very clear. For exports, so we confirm our guidance in spite of 270,000 units exporting in the first six months. But as I mentioned, we are very, very optimistic about the performance of Tipo in the MENA, in particular in the North Africa markets. And this is not probably enough, but this is something tangible. As you maybe know, Stellantis, in October, signed an important agreement and partnership with the Algerian government. And now Stellantis is going to produce some model in Algeria.

And as a result of this, Stellantis has also access to these markets that is a very huge market, is a market that in the past reached 400,000 units. And starting from 2016, this market was restrict, the import in this market was banned. So now we believe that with Tipo, we can achieve good performance in this market. So, this is a very important agreement and partnership that has been signed, I repeat again, in October and specifically for the Fiat brand.

So, it's the Fiat brand of Stellantis that will access to these markets. And the first car produced will be 500 hybrid followed by Doblo. But in total, four models will be produced locally in Algeria. And this is related to the first question. So, coming back to the number, yes, we are confident that in the second semester, we can export 50,000 units to meet our expectation and our guidance.

Related to the financial results, of course, the PBT, we have declared, is also the result of the good financial performance. Our cash position is very, very high. But the reason is we are at the end of an investment cycle. So, we have cash. And the result of this cash is a good performance in terms of interest, in terms of FX.

But of course, the reason why we provide a guidance not above 14% is because we cannot expect in the second semester the same level of financial income that in the first part of the year, it was around 3%, 4%, the contribution to the PBT, even because we are going to start a new cycle of investments. And also, we have to finance the transaction for the acquisition of Stellantis Turkey. Thank you.

LANKA S.: Thank you. This is good. Thank you.

OPERATOR: Ladies and gentlemen, there are no further audio questions at this time or from our webcast participants. I will now turn the conference over to Mr. Renzi for any closing comments. Thank you.

RENZI F.: Thank you. Thank you again, operator. I would like to thank you for this participation and for the valuable questions and contribution. I wish you all day.