09 June 2020

# Enerjisa

## Superior real return structure & scope for deleveraging at a discount

- **Initiating coverage at Buy:** We are initiating coverage of Enerjisa Enerji A.S., Sabanci Holding's electricity distribution JV with E.ON, with a Buy rating and a 12M total return target of TL10.60/share (including a DPS of TL0.76, implying a yield of 9.1%), corresponding to total return potential of 27%. Enerjisa shares have outperformed the BIST-100 by 29% YTD and 64% since the IPO on 8 February 2018, translating to nominal TL returns of 24% and 57%, respectively. The strong performance was led by: **1)** increased investor appetite for assets with high real return structures; **2)** management's successful execution of its operational and dividend targets; and **3)** valuation appeal vs peers. We believe the momentum of the aforementioned factors are intact, and despite the outperformance, we perceive the current price level as a viable entry point for the shares. Our conviction is driven by: **1)** EMRA's supportive regulatory framework, with a substantially higher real return component (2015-2020: 13.6%) that is likely to be sustained in the next regulatory period (2020E-2025E: 12.0%), **2)** c.TL4bn in reimbursement for a capex overspend expected to be received in cash in 2021, significantly lowering leverage; **3)** lower net debt, lower financing costs (via lower interest rates and nominal leverage) and tax rates leading to a CAGR of c.34% for net income growth over 2019-2022, on our estimates; **4)** strong dividend growth (CAGR of c.30% over 2019-2022) and yield (9.1% cash yield in 2021; 2021-2023 avg cash yield of 12.1%); **5)** income structure that protects real returns from volatility in the CPI at the operating level; **6)** continued RAB growth (albeit at a slower pace in FY20E and FY21E on our estimates); **7)** absence of FX-denominated leverage insulating Enerjisa's earnings from TL volatility; **8)** solid shareholder structure allowing competitive financing and other synergies; and **9)** shares trading at a deep discount vs peers.
- **Lower leverage & interest rate should drive EPS & DPS growth:** We expect Enerjisa's prospective lower net debt position, combined with lower interest rates and effective tax rates, to visibly improve its net income growth. Enerjisa's weighted cost of financing on its loan portfolio dropped by 3.2pps y/y in 1Q20, to 14.9%, with there still being room for decline, albeit at a more limited pace, as we approach a trough in interest rates. Accordingly, we expect Enerjisa's EPS to grow by 38% in FY20 and 28% in FY21, with cash DPS set to grow by 26% y/y in FY21 and 28% in FY22, implying respective div. yields of 9.1% and 11.6%.
- **Trading at a discount vs historical multiples, attractive valuation vs peers:** Shares are trading at a FY21E P/E of 5.4x (a 22% discount vs the 3Y median of 6.9x), an EV/EBITDA of 3.9x (a 13% discount vs the 3Y median of 4.5x), an EV/operational earnings of 3.0x (a 21% discount vs the 3Y median of 3.8x), and an EV/RAB of 1.7x (a 14% discount vs the 3Y median of 2.0x), which we view as attractive. In addition, Enerjisa is trading at a consensus FY21E P/E of 5.6x, implying a 61% discount vs the peer universe (3Y average discount: 64%), and at a discount of 62% on a FY21E EV/EBITDA (3Y average discount: 56%). Enerjisa is a relatively new company vs its more established peers. We perceive that as the company builds up a track record in terms of operational performance and dividend distribution, this should provide grounds for a lower discount to peers.
- **Key risks & catalysts:** The key risks to our positive call are: **1)** EMRA setting the WACC and other compensatory mechanisms at levels less favourable vs our expectations; **2)** delays or proposals of alternative mechanisms in the reimbursement of capex overpayment of c.TL4bn in 2021; **3)** an increase in borrowing costs; and **4)** re-escalation of COVID-19-related concerns which would slow down RAB growth through slower capex deployment and increase Enerjisa's NWC, particularly in the retail segment. Key catalysts are: **1)** announcement of EMRA's fourth regulatory term parameters (expected in 4Q20); **2)** a further decline in borrowing costs; and **3)** potential M&A activity.

Initiating coverage

Equity Research | CEEMEA/Turkey

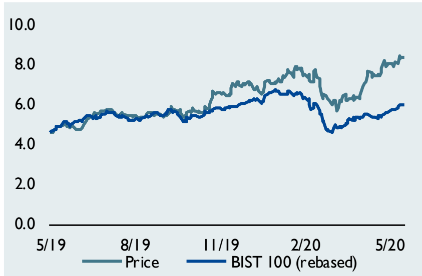
Recommendation: **BUY**

Target Price: TL 10.60

*Stock ratings are relative to the relevant country benchmark.'Target price is for 12 months
Produced by: Unlu Menkul

| **Share data** | |
|---|---|
| RIC | ENJSA.IS |
| Sector | Utilities |
| Price (08 Jun 2020) | TL 8.34 |
| Market cap. (TLm) | 9,850 |
| Enterprise value (TLm) | 19,394 |
| Market cap. (USDm) | 1,455 |
| Enterprise value (USDm) | 2,864 |
| Avg. daily trade value (USDm) | 6.84 |
| Free float (%) | 20 |

**Price relative to BIST 100**




| Historical performance relative to BIST 100 (%) | | | |
|---|---|---|---|
| Performance over | 1M | 3M | 12M |
| Absolute (%) | 11.8 | 13.8 | 67.6 |
| Relative (%) | -0.2 | 13.8 | 43.4 |

Source: BIST 100, UNLU Menkul

The price relative chart measures performance against the Turkey BIST 100 which closed at 109,637 on 08 Jun 2020

**Summary metrics of Unlu Menkul * vs. Enerjisa**

| | Unlu Menkul Cov. * | | Enerjisa | |
|---|---|---|---|---|
| | 2020E | 2021E | 2020E | 2021E |
| P/E (x) | 29.1 | 10.9 | 6.9 | 5.4 |
| EV/EBITDA (x) | 8.1 | 5.6 | 4.9 | 3.9 |
| ROE (%) | 10.3 | 14.6 | 20.1 | 23.7 |
| ROIC (%) | 9.9 | 11.7 | 17.3 | 19.7 |
| Div Yield (%) | 3.8 | 5.2 | 9.1 | 11.6 |
| Revenue growth (%) | -4% | 24% | 5% | 18% |
| EBITDA growth (%) | -9% | 34% | 10% | 10% |
| EPS growth (%) | -30% | 67% | 38% | 28% |

Source: Company financials, *Unlu Menkul coverage estimates, ff mcap weighted, industrials only, holdings excluded


**Research Analyst**
**Koray Pamir**
koray.pamir@unluco.com
+90-212-367-3687

| Valuation metrics | 2017A | 2018A | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| P/E (x) | n.a. | 9.4 | 6.8 | 6.9 | 5.4 | 4.0 |
| EV/EBITDA (x) | n.a. | 3.7 | 4.5 | 4.9 | 3.9 | 3.3 |
| EV/sales (x) | n.a. | 0.9 | 0.8 | 0.9 | 0.7 | 0.6 |
| Dividend yield (%) | n.a. | 6.7 | 10.1 | 9.1 | 11.6 | 15.7 |

| Ratio analysis | 2017A | 2018A | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| ROE (headline basis) (%) | 19% | 12% | 16% | 20% | 24% | 29% |
| ROIC (EBIT basis) (%) | 16% | 23% | 16% | 17% | 20% | 24% |
| Gross margin (%) | 32% | 33% | 27% | 28% | 27% | 27% |
| EBITDA margin (%) | 21% | 24% | 18% | 19% | 18% | 17% |
| EBIT margin (%) | 20% | 22% | 16% | 17% | 16% | 16% |
| Net margin (%) | 8% | 4% | 5% | 7% | 8% | 9% |
| Net debt/EBITDA (x) | 2.8 | 2.1 | 2.5 | 2.4 | 1.6 | 1.2 |
| Interest coverage (to EBITDA) (x) | -0.4 | -0.3 | -0.5 | -0.4 | -0.3 | -0.2 |

| Profit and loss (TLm) | 2017A | 2018A | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| **Revenue** | **12,345** | **18,347** | **19,453** | **20,429** | **24,005** | **27,711** |
| *Growth (yly)* | 36% | 49% | 6% | 5% | 18% | 15% |
| Gross profit | 3,932 | 5,967 | 5,344 | 5,788 | 6,566 | 7,499 |
| **EBITDA** | **2,649** | **4,376** | **3,547** | **3,893** | **4,284** | **4,815** |
| *Growth (yly)* | *66%* | *65%* | *-19%* | *10%* | *10%* | *12%* |
| EBIT | 2,414 | 4,118 | 3,174 | 3,509 | 3,888 | 4,407 |
| *Growth (yly)* | *76%* | *71%* | *-23%* | *11%* | *11%* | *13%* |
| Other income/expense | (173) | (1,306) | (110) | (215) | (135) | (156) |
| Financial income/expense | (957) | (1,489) | (1,673) | (1,424) | (1,394) | (1,054) |
| Profit before tax | 1,284 | 1,322 | 1,391 | 1,869 | 2,359 | 3,197 |
| Tax | 296 | 574 | 358 | 439 | 531 | 719 |
| *Effective tax rate* | *23.0%* | *43.4%* | *25.7%* | *23.5%* | *22.5%* | *22.5%* |
| Minorities | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net income** | **988** | **748** | **1,034** | **1,430** | **1,828** | **2,478** |
| *Growth (yly)* | *161.8%* | *-24.3%* | *38.2%* | *38.4%* | *27.8%* | *35.5%* |
| Weighted diluted number of shares (m) | 1,181 | 1,181 | 1,181 | 1,181 | 1,181 | 1,181 |
| Earnings per share (EPS) (TL) | 0.84 | 0.63 | 0.88 | 1.21 | 1.55 | 2.10 |
| Dividend per share (DPS) (TL) | 0.14 | 0.40 | 0.60 | 0.76 | 0.97 | 1.31 |
| *Dividend payout ratio* | *16%* | *63%* | *69%* | *63%* | *63%* | *63%* |

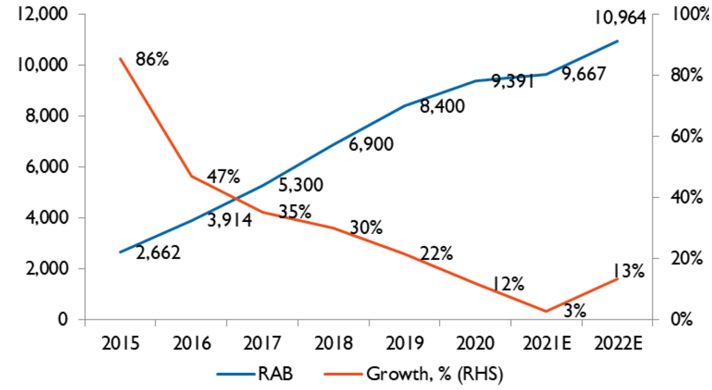
| Cash flow (TLm) | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|
| EBIT | 3,174 | 3,509 | 3,888 | 4,407 |
| Depreciation & amortization | 373 | 384 | 396 | 407 |
| Change in working capital | -86 | 1,014 | 422 | 452 |
| Taxes paid | -358 | -439 | -531 | -719 |
| Capex | **-1,764** | **-1,590** | **-1,931** | **-2,171** |
| *Capex/revenues* | *-9%* | *-8%* | *-8%* | *-8%* |
| | | | | |
| **Free cash flow** | **1,339** | **2,877** | **2,244** | **2,376** |
| FCF Margin (% of revenues) | *7%* | *14%* | *9%* | *9%* |
| FCF Margin (% of ave. mcap) | *19%* | *29%* | *23%* | *24%* |
| Dividends paid | 472 | 709 | 894 | 1,143 |
| **Net increase (decrease) in cash** | **(93)** | **997** | **1,749** | **618** |

| Balance sheet (TLm) | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|
| Cash | 470 | 1,467 | 3,216 | 3,834 |
| Total current assets | 5,782 | 7,349 | 9,936 | 11,417 |
| Property, plant equipment | 484 | 614 | 744 | 872 |
| Intangible fixed assets | 6,548 | 6,201 | 5,862 | 5,531 |
| Total non-current assets | 17,614 | 17,467 | 15,505 | 14,915 |
| **Total assets** | **23,395** | **24,815** | **25,440** | **26,332** |
| Current liabilities | 7,331 | 5,838 | 6,094 | 6,354 |
| Total non-current liabilities | 9,230 | 11,607 | 11,290 | 10,992 |
| Total ordinary shareholders' equity | 6,835 | 7,371 | 8,056 | 8,986 |
| **Total equity and liability** | **23,395** | **24,815** | **25,440** | **26,332** |
| Net working capital | 1,552 | 2,566 | 2,988 | 3,441 |
| Net cash (debt) | (8,955) | (9,220) | (6,945) | (5,828) |

Source: Company financials, Unlu Menkul estimates

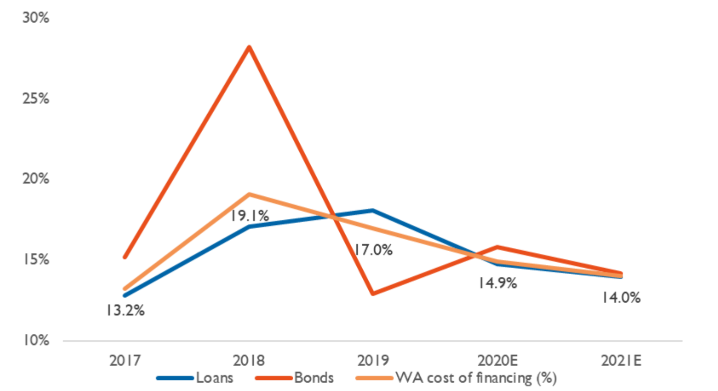
# Key charts

**Figure 1: Enerjisa's RAB progression and growth (%)**



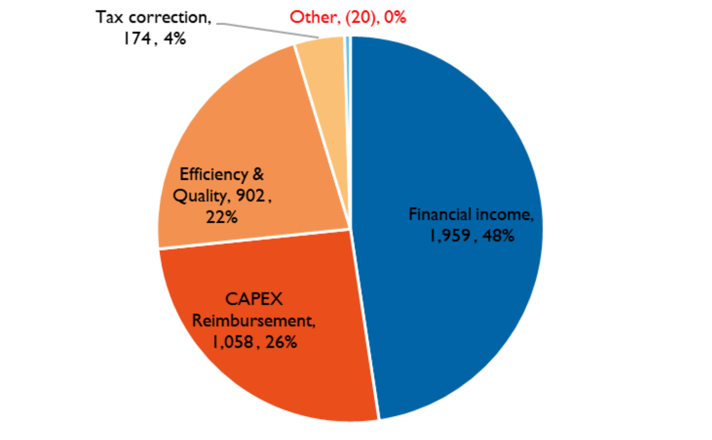

Source: Company financials, Unlu Menkul estimates

**Figure 2: Enerjisa's weighted average cost of financing progression**



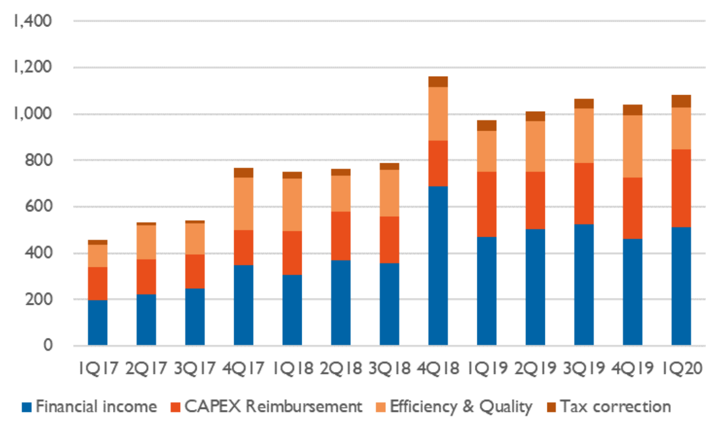

Source: Company financials, Unlu Menkul estimates

**Figure 3: Enerjisa's distribution operations' operating income breakdown (2019A) (TLm, %)**



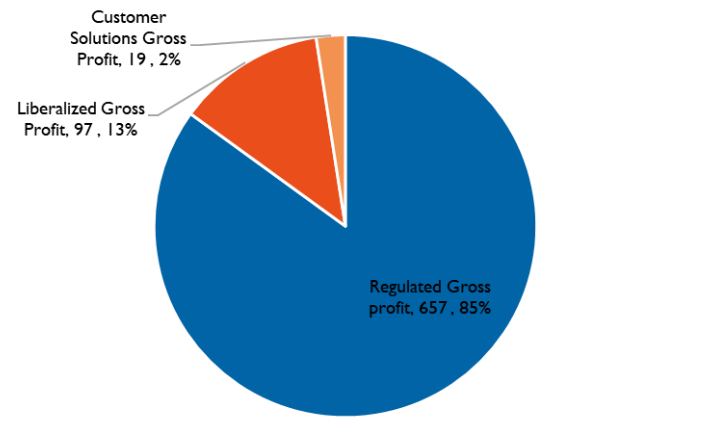

Source: Company financials

**Figure 4: Enerjisa's distribution operations' operating income progression (TLm)m quarterly**



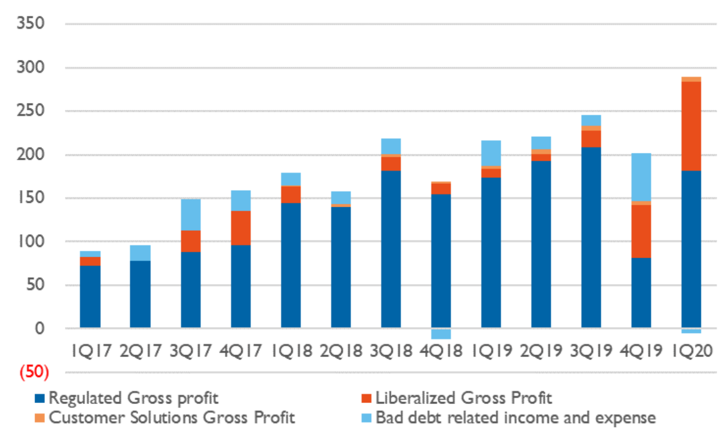

Source: Company financials

**Figure 5: Enerjisa's retail operations' operating income breakdown (2019A) (TLm, %) ***



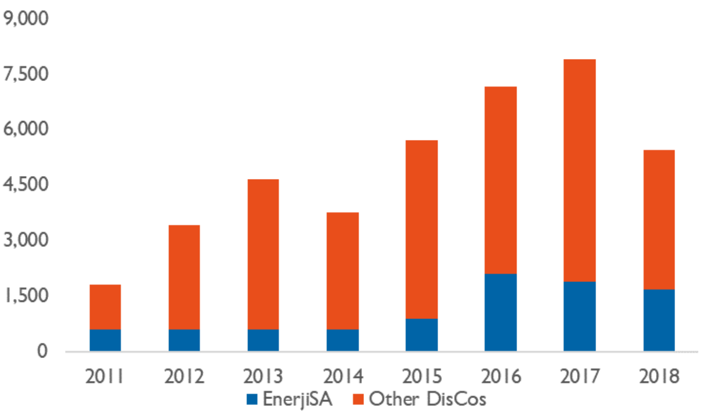

Source: Company financials, * excluding opex

**Figure 6: Enerjisa's retail operations' operating income progression (TLm), quarterly**



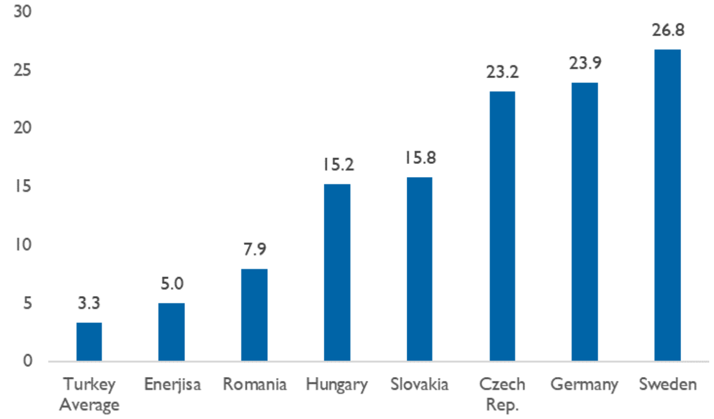

Source: Company financials

**Figure 7: Turkey distribution investments (TLm, 2019 prices)**



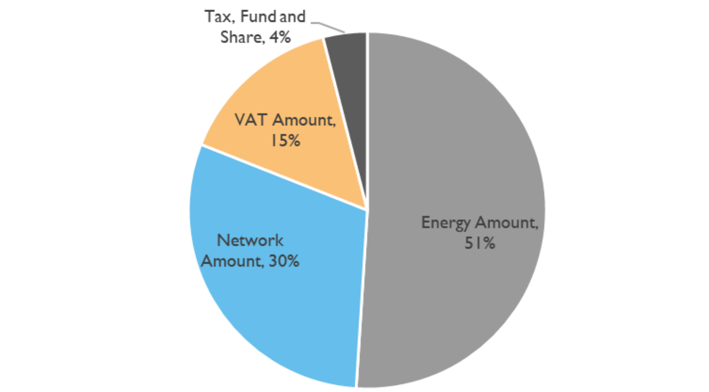

Source: Company

**Figure 8: Asset base relative to grid size (2018 RAB in 000E/km)**



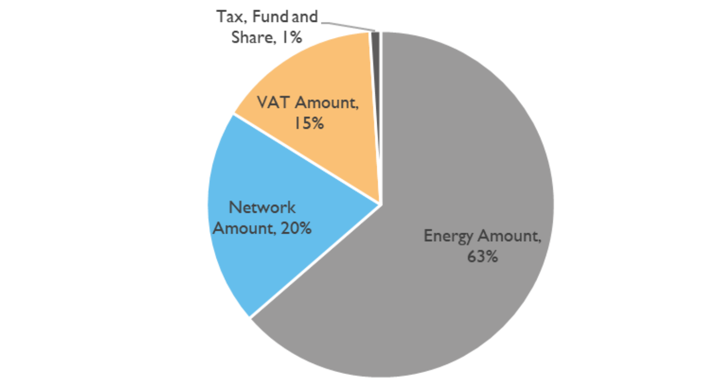

Source: Company

**Figure 9: Share of costs in the residential electricity bill, 2019 (%)**



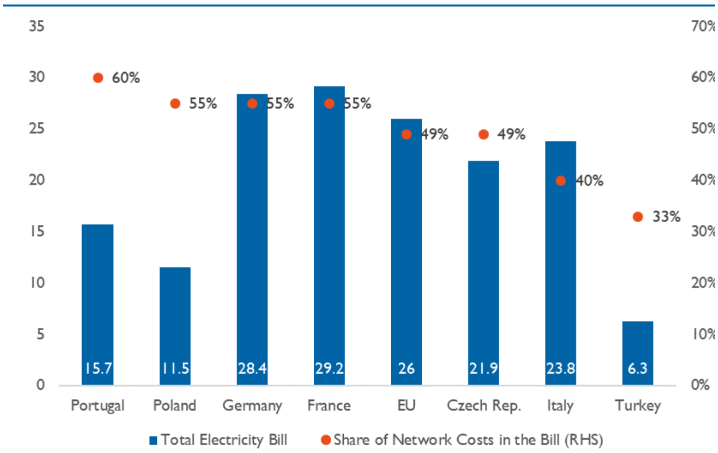

Source: EMRA

**Figure 10: Share of costs in the industrial electricity bill, 2019 (%)**



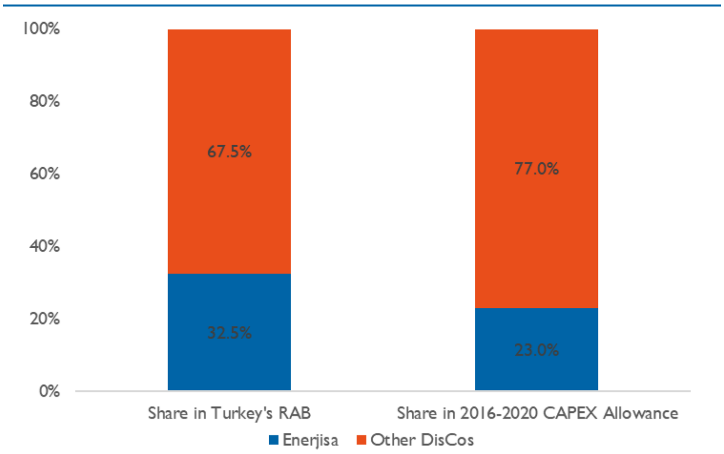

Source: EMRA

**Figure 11: Comparison of 2018 cumulative electricity bill and share of network costs in the bill**




Source: Eurostat via Company, * consumers below 1,000 kWh consumption, ** total electricity bill and share of network costs in the bill include tax costs

**Figure 12: Enerjisa's share in Turkey's cumulative RAB* and share in 2016-2020 capex allowance****



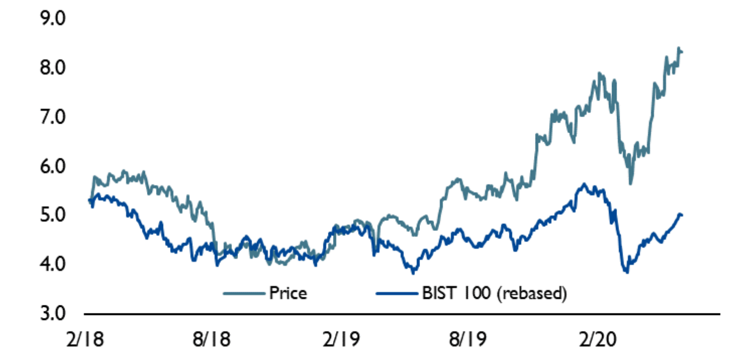

Source: Company, EMRA, *Enerjisa RAB accounts for actual Capex, **calculated based on the initial Capex allowance for the tariff period,

# Investment case

## Sustainable high real returns and scope for deleveraging

**Initiating coverage with a Buy rating:** We are initiating coverage of Enerjisa Enerji A.S., Sabanci Holding's electricity distribution JV with E.ON, with a Buy rating and a 12M total return target of TL10.60/share (including a DPS of TL0.76, implying a yield of 9.1%), corresponding to total return potential of 27%. Enerjisa shares have outperformed the BIST-100 by 29% YTD and 64% since the IPO on 8 February 2018, translating to nominal TL returns of 24% and 57%, respectively. The strong performance was led by: **1)** increased investor appetite for assets with high real return structures; **2)** management's successful execution of its operational and dividend targets; and **3)** valuation appeal vs peers.

**Figure 13: Enerjisa's relative share performance**




Source: Rasyonet

**Figure 14: Summary metrics of Unlu Menkul coverage vs. Enerjisa**

| | Unlu Menkul Cov. * | | Enerjisa | |
|---|---|---|---|---|
| | 2020E | 2021E | 2020E | 2021E |
| P/E (x) | 29.1 | 10.9 | 6.9 | 5.4 |
| EV/EBITDA (x) | 8.1 | 5.6 | 4.9 | 3.9 |
| ROE (%) | 10.3 | 14.6 | 20.1 | 23.7 |
| ROIC (%) | 9.9 | 11.7 | 17.3 | 19.7 |
| Div Yield (%) | 3.8 | 5.2 | 9.1 | 11.6 |
| Revenue growth (%) | -4% | 24% | 5% | 18% |
| EBITDA growth (%) | -9% | 34% | 10% | 10% |
| EPS growth (%) | -30% | 67% | 38% | 28% |

Source: Company, *Unlu Menkul coverage estimates, ff mcap weighted, industrials only, holdings excluded

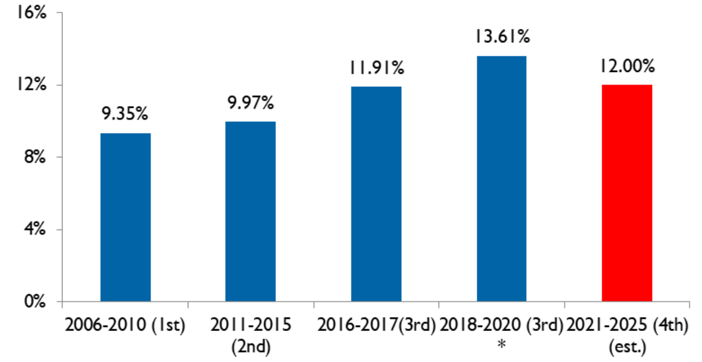
We believe the momentum of the aforementioned factors are intact, and despite the outperformance, we perceive the current price level as a viable entry point for the shares. Our conviction is driven by: **1)** EMRA's supportive regulatory framework, with a substantially higher real return component (2015-2020: 13.6%) that is likely to be sustained in the next regulatory period (2020E-2025E: 12.0%), **2)** c.TL4bn in reimbursement for a capex overspend expected to be received in cash in 2021, significantly lowering leverage; **3)** lower net debt, lower financing costs (via lower interest rates and nominal leverage) and tax rates leading to a CAGR of c.34% for net income growth over 2019-2022, on our estimates; **4)** strong dividend growth (CAGR of c.30% over 2019-2022) and yield (9.1% cash yield in 2021; 2021-2023 avg cash yield of 12.1%); **5)** income structure that protects real returns from volatility in the CPI at the operating level; **6)** continued RAB growth (albeit at a slower pace in FY20E and FY21E on our estimates); **7)** absence of FX-denominated leverage insulating Enerjisa's earnings from TL volatility; **8)** solid shareholder structure allowing competitive financing and other synergies; and **9)** shares trading at a deep discount vs peers.

We expect Enerjisa's prospective lower net debt position, combined with lower interest rates and effective tax rates, to visibly improve its net income growth. Enerjisa's weighted cost of financing on its loan portfolio dropped by 3.2pps y/y in 1Q20, to 14.9%, with there still being room for decline, albeit at a more limited pace, as we approach a trough in interest rates. Accordingly, we expect Enerjisa's EPS to grow by 38% in FY20 and 28% in FY21, with cash DPS set to grow by 26% y/y in FY21 and 28% in FY22, implying respective div. yields of 9.1% and 11.6%.

**Leading electricity distribution company in Turkey:** As a brief recap, Enerjisa, the leading electricity distribution (25% market share) and retail (22% market share) company in Turkey, was founded in 1996 primarily as an electricity generation business. The company acquired the Baskent electricity distribution region in 2009, followed by the acquisition of the Ayedas and Toroslar regions in 2013. Earlier in 2013, E.ON replaced Verbund as Sabanci Holding's partner in the company. Enerjisa's generation and wholesale businesses were spun off from the distribution and retail businesses in 2017. Enerjisa, as the distribution and retail company, was listed on the BIST in February 2018.

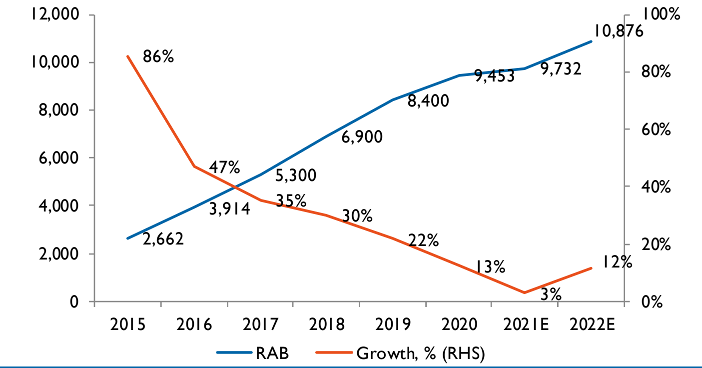
**EMRA is likely to maintain relatively high real return component:** EMRA is expected to announce the details, including WACC and other parameters (retail margin, allowance for capex [distribution], opex, theft accrual and collections, and theft and loss) for the fourth regulatory period (2021-2025) in late 2020.

**Figure 15: Regulated WACC (real terms) progression (%)**




Source: EMRA, Unlu Menkul estimate, * revised as of December 2018

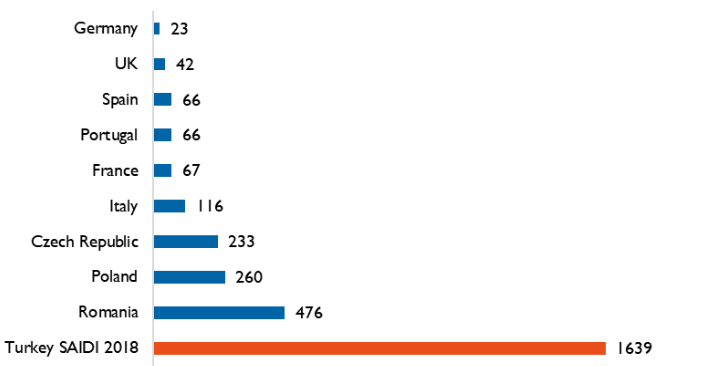
**Figure 16: Enerjisa's RAB (TLm) & growth (%) ***




Source: EMRA, Unlu Menkul estimates, * capex reimbursement payment deducted from 2021e RAB

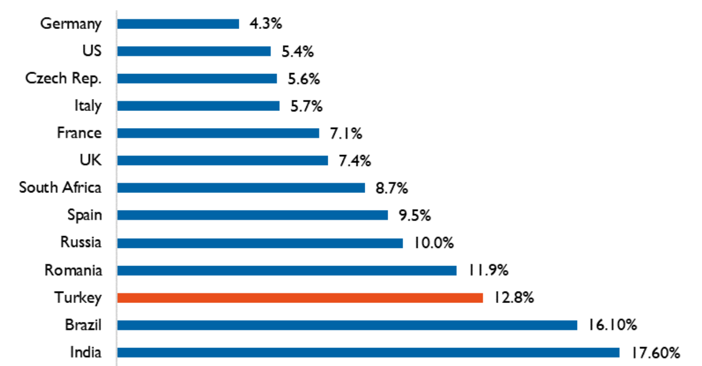
We believe that EMRA could be inclined to maintain a relatively high WACC, due to: **1)** our expectation of the overall financial health of the sector (mainly due to the mostly FX-denominated financial obligations) being unlikely to exhibit a significant improvement in the near term, thus necessitating a relatively favourable return component; and **2**) continued investment needs in historically underinvested grids, coupled with the above-EU-average population and electricity consumption growth outlook in Turkey.

**Figure 17: SAIDI benchmarking vs European counterparts ***




Source: Company financials, CEER, * (minutes per year, 2016)

**Figure 18: T&D losses in selected countries ***




Source: World Economic Forum, * % of output, 2018

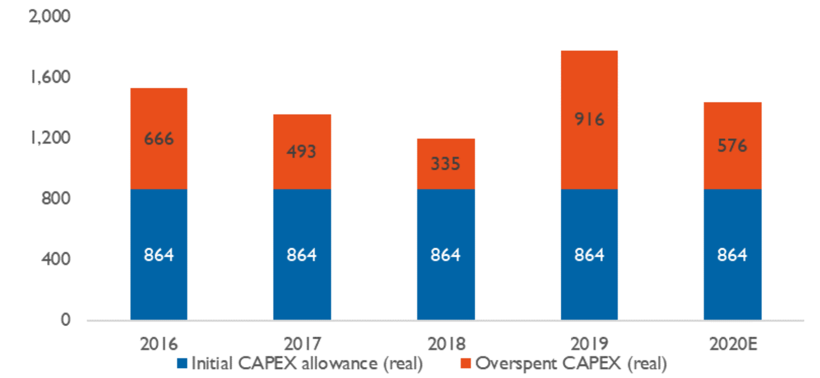
Accordingly, considering the lower inflation and interest rate prints, we have plugged in a WACC of 12.5% for the foreseeable future.

Recall that EMRA had progressively increased the real return component (the key component of the profitability of distribution companies) during the third regulatory period. Accordingly, on 20 December 2017, EMRA revised up the rate of return component for electricity distribution companies for the third term (2018-2020) electricity distribution tariff period, effective until December 2020. Accordingly, the adjusted reasonable rate of return (real terms and before tax, also referred to as WACC) was increased by 1.7pps, to 13.61% from 11.91% (3.6pps higher than the WACC of 9.97% set for 2010-2015).

The more generous return component offered by EMRA was partially motivated by the need to alleviate the FX debt-burdened balance sheets of various electricity distribution grid operators in the sector considering the significant depreciation of the TL against the USD given the mostly TL-denominated revenue stream of the distribution companies.

**Enerjisa is expected to receive c.TL4bn in cash by end-2021:** Enerjisa expects to receive c.TL4bn over 12M in 2021, related to compensation for the overspending of distribution capex by Enerjisa over 2016-2020. The compensation includes: **1)** foregone financial income; **2)** foregone capex reimbursement; and **3)** compensation for delay (WACC + inflation). Adjusting the aforementioned components for Enerjisa's real capex overspend of c.TL2.9bn over 2016-2020, c.TL4bn is to be collected through future customer invoices via distribution tariffs.

**Figure 19: Enerjisa's actual vs initial allowed capex (in TL real terms, 10/2015 prices)**



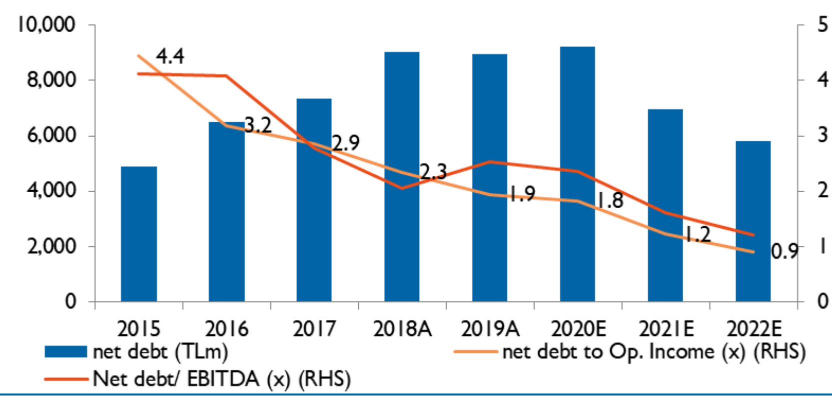

Source: Company financials, Unlu Menkul

We perceive that a large chunk of the cumulative capex overspend by electricity distribution company operators in Turkey was incurred by Enerjisa, primarily due to the relatively low financing capability of most of the other operators, considering their FX-denominated leverage. According to the regulations, collections from all regulated regions in Turkey will be relocated to distribution companies via the price equalisation mechanism, based on the actual capex incurred in the third regulatory period. Under Enerjisa's c.10% overspend assumption across Turkey, the end-customer prices need to be raised by 1.3% (including fees and taxes).

We believe that EMRA is unlikely to delay the compensation payments in order: **1)** to avoid incurring WACC + inflation compensation penalties (c.22% at the prevailing rates); and **2)** not to disincentivise operators to invest in their grids. That said, in our model, we have assumed the payment to be received in equal amounts (c.TL2bn/year) through 2021 and 2022. Note that Enerjisa will continue to receive compensation for overspend distribution beyond 2021 in cash as well stemming from the 10Y repayment period, albeit at lesser amounts, as the prospect of the bulk payment in 2020 is cumulative. Besides; the capex reimbursement portion of the payment (c.TL1bn, on our estimates) will be deducted from Enerjisa' RAB as the payments are received.

**Capex overspend compensation payments to significantly reduce leverage:** Enerjisa has net debt of TL9.5bn as of 1Q20 (excluding customer deposits and leases), which we expect to decline to TL6.9bn by the end of FY21, based on the assumption of TL2bn (out of c.TL4bn) in capex overspend compensation to be received in 2020.

**Figure 20: Net debt & net debt/EBITDA (x) progression**

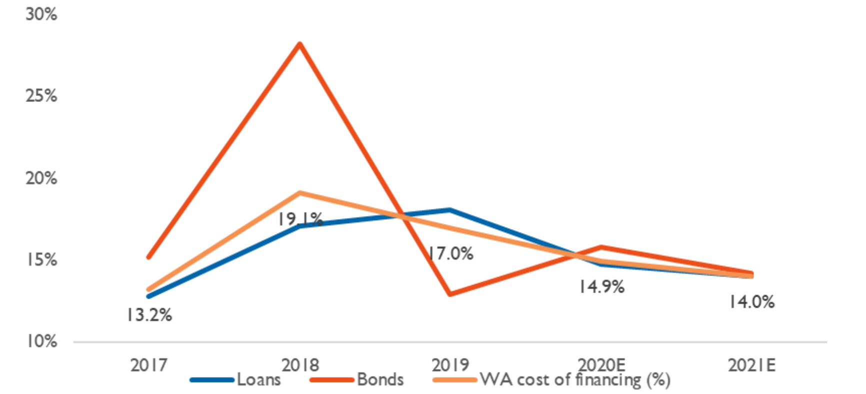



Source: Company financials, Unlu Menkul estimates

Accordingly, we anticipate Enerjisa's net debt/operational earnings (EBITDA + capex reimbursement) to decline from 2.0x at FY20 and further to 1.3x in FY21 (vs 7.0x in 2014). While we have also penciled in c.TL2bn of compensation-related cash income in 2022, its impact on Enerjisa's net debt should be more subdued due to normalisation of capex, as we expect Enerjisa to continue to maximise its RAB base and substantially increase nominal dividend payments.

**Lower leverage and interest rates should drive EPS and DPS growth:** We expect Enerjisa's lower net debt position, combined with lower interest rates, to visibly improve its net income growth. Enerjisa's weighted cost of financing on its loan portfolio dropped by 3.2pps y/y in 1Q20, to 14.9%, with there still being room for further decline, albeit at a more limited pace.

**Figure 21: Enerjisa's weighted average cost of financing progression**



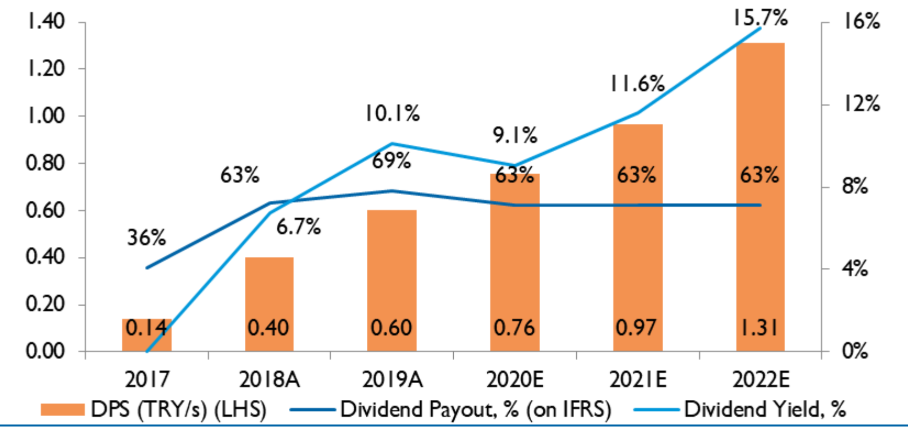

Source: Company financials

Enerjisa has a dividend policy of a 60-70% payout of its underlying net income (net income excluding one-off and/or extraordinary items). We expect Enerjisa to maintain a c.63% dividend payout (on underlying net income) going forward (barring any extraordinary developments on the cost of financing and regarding the sector).

Accordingly, we expect Enerjisa's EPS to grow by 38% in FY20 and 28% in FY21, with cash DPS set to grow by 26% y/y in FY21 and 28% in FY22, implying respective div. yields of 9.1% and 11.6%.

We perceive that management views the continuity and stability of its dividend payout as the key means of delivering value to shareholders. While we expect Enerjisa to be paid c.TL4bn in 2021 and 2022, the company may refrain from increasing its dividend payout to ensure its sustainability over the long term.

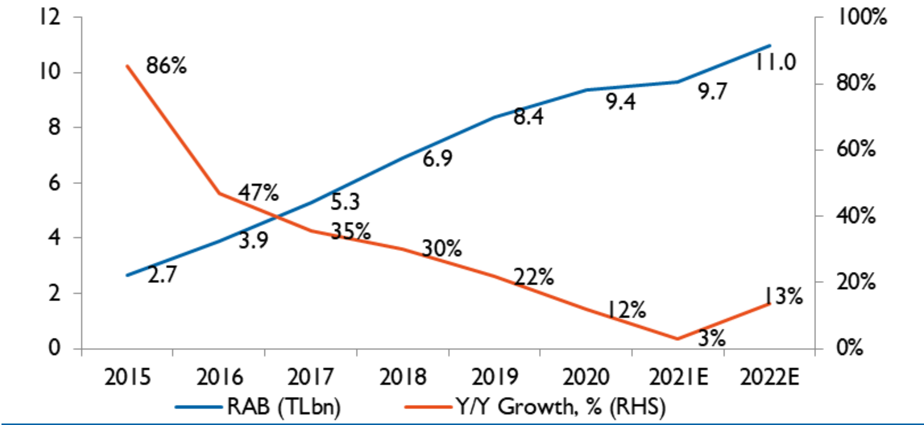
**Figure 22: Enerjisa's DPS and dividend payout progression**




Source: Company financials, Unlu Menkul estimates.

**RAB growth to slow in FY20 and FY21, but looks set to recover thereafter:** Enerjisa's RAB (regulated asset base), which constitutes the base of regulated return on the distribution grid, grew at a CAGR of 33% between 2015 and 2019, reaching TL8.4bn, mainly driven by the substantial capex on its grid. We expect to see a deceleration in the grid investment in 2020, due to COVID-19-related deployment precautions, coupled with the capex reimbursement component to be deducted from its RAB following the receival of capex overspend compensation, which will lead to subdued growth in the medium term. That said, we expect the capex deployment to fully normalise in 2022 and the company's RAB to grow at a CAGR of c.13% thereafter.

**Figure 23: Enerjisa's RAB progression and growth (%)**




Source: Company financials, Unlu Menkul research

**Enerjisa's cash flow and leverage are fully matched in TL:** Enerjisa has a net debt position of TL9.2bn (TL 7.7bn in loans [net of cash and derivatives] and TL1.5bn CPI-linked bonds) as of 1Q20, 98% of which is TL-denominated, The remaining hard currency loans are hedged with cross-currency swaps. Accordingly, including the hedges, Enerjisa has a slight long USD position (TL19m PBT impact for every 1% depreciation of the TL vs the USD) and a neutral EUR position.

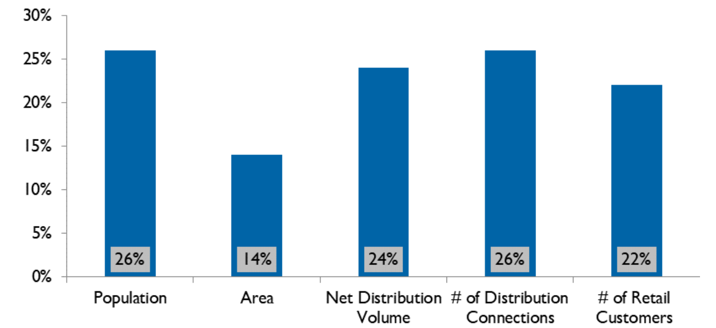
As Enerjisa's revenues are fully denominated in TL, we view the currency match of its cash flows and financial leverage as a differentiating attribute for the company vs most of the BIST industrials in terms of dividend visibility, particularly considering the heightened volatility in the TL. We expect Enerjisa's management to maintain its hedging policies.

**Strong market position and shareholder structure lead to cost advantages:** The combined distribution network (Toroslar, Baskent & Ayedas) positions Enerjisa Enerji A.S. ("Enerjisa") as the largest grid operator in Turkey, with 11.2m distribution connections (25% of those in Turkey as of 2019). Enerjisa is also involved in the retail sale of electricity, with increasing exposure in the liberalized segment. Enerjisa benefits from: **1)** operational synergies across its distribution (consolidated management and fixed costs, personnel allocation optimisation, implementation of best practices across regions, etc.); and **2)** lower capex (per unit) given the substantial purchasing power of the company, which is captured through a capex outperformance item in its operational earnings.

**Figure 24: Enerjisa's distribution network layout**


Source: Company financials

**Figure 25: Enerjisa's market share (%)**



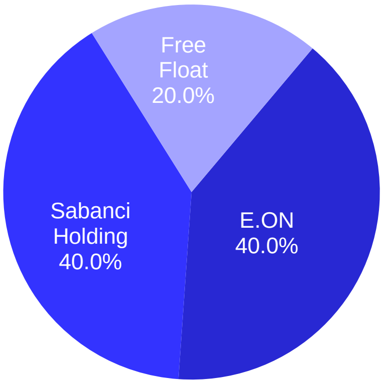

Source: Company financials

With equal partnership (40% each) between Sabanci Holding and E.ON (Germany) since 2013 and a 20% free float since the IPO, Enerjisa arguably has the strongest shareholder structure vs the other electricity distribution regions, in our view.

We believe that the accompanying more competitive financing terms (vs peers) are among the key drivers of the profitability of its distribution business, given the substantial contribution to the delta between the nominal return component regulated by EMRA minus the cost of financing of the company's grid capex.

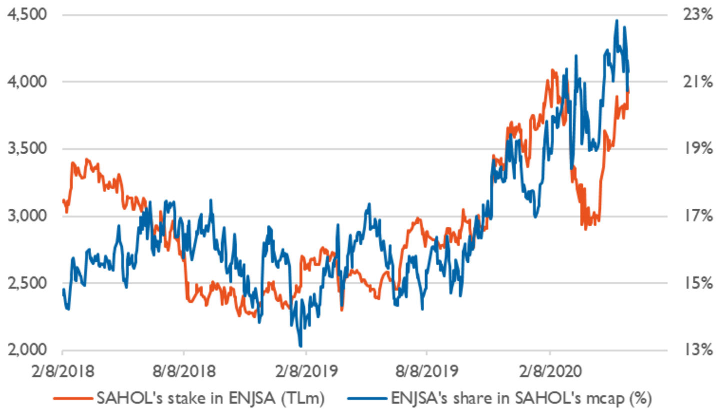
Besides, we believe that Enerjisa has become a more important asset for Sabanci Holding, with the weight of Sabanci Holding's 40% stake in Enerjisa having increased by 4pps, to 21%, in Sabanci's mcap. Further re-rating of Enerjisa shares is likely to be supportive of Sabanci's shares as well.

**Figure 26: Enerjisa's shareholder structure**




Source: Company financials

**Figure 27: ENJSA's share in SAHOL mcap**




Source: Company financials

# Valuation

**We value Enerjisa via blended target FY21E P/E and EV/EBITDA multiples:** We value Enerjisa via a blended target multiple valuation (50% P/E at 8.0x, 50% EV/EBITDA at 4.5x) based on our FY21 forecasts. Accordingly, we reach a target share price of TL10.60, implying an upside potential of 27%, implying a Buy rating.

**Figure 28: Enerjisa's distribution & retail operations valuation summary (TLm)**

| | Multiple (x) | Implied Equity Value | Weight (%) |
|---|---|---|---|
| FY21E P/E * @ 8x | 8.0 | 14,626 | 50% |
| FY21E EV/EBITDA * @ 4.5x | 4.5 | 12,229 | 50% |
| **12M Target Mcap (TLm)** | | **12,467** | |
| Current Market Cap (TLm) | | 9,850 | |
| *Total Return Potential, %* | | 27% | |
| **12M TP (TL/s)** | | **10.60** | |
| Current Share Price | | 8.34 | |
| *12M Upside Potential, %* | | 27% | |

Source: Unlu Menkul estimates, Company financials, * adjusted for one-offs

We believe Enerjisa' P/E (adjusted for one-offs) is a fair valuation benchmark as it: **1)** provides a more standard valuation parameter given the abundance of moving parts and adjustments at the operating level; and **2)** captures the impact of lower borrowing costs through lower financial expenses, thus higher sustainable net income. In our calculations, we have added the capex reimbursement component to the IFRS EBITDA, as we believe it is a recurring item related to the company's operations.

Our underlying assumptions are as follows:

**Figure 29: Enerjisa's distribution & retail operations valuation summary (TLm)**

| | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|---|---|---|---|
| RAB (TLm) | 5,300 | 6,900 | 8,400 | 9,391 | 9,667 | 10,964 | 12,338 | 13,790 | 15,320 |
| *Growth, y/y %* | *35%* | *30%* | *22%* | *12%* | *3%* | *13%* | *13%* | *12%* | *11%* |
| CAPEX (TLm) | (1,747) | (1,602) | (1,764) | (1,590) | (1,931) | (2,171) | (2,325) | (2,480) | (2,640) |
| *Growth, y/y %* | 12% | -8% | 10% | -10% | 21% | 12% | 7% | 7% | 6% |
| | | | | | | | | | |
| **(+) WACC Return** | | | | | | | | | |
| Regulated WACC (EOP) (%) | 11.9% | 13.6% | 13.6% | 13.6% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% |
| Inflation (%) | 11.1% | 16.3% | 16.1% | 10.9% | 9.3% | 8.8% | 8.8% | 8.3% | 8.0% |
| Nom. WACC (%) | 23.0% | 29.9% | 29.7% | 24.5% | 21.3% | 20.8% | 20.8% | 20.3% | 20.0% |
| Financial Income (Reported) (TLm) | 1,014 | 1,717 | 1,959 | 2,062 | 2,001 | 2,010 | 2,275 | 2,498 | 2,758 |
| | | | | | | | | | |
| **(-) Financing Costs** | | | | | | | | | |
| Net debt (EOP) (TLm) | 7,345 | 9,003 | 8,955 | 9,220 | 6,945 | 5,828 | 6,527 | 7,188 | 7,817 |
| *Growth, y/y %* | *13%* | *23%* | *-1%* | *3%* | *-25%* | *-16%* | *12%* | *10%* | *9%* |
| Loans | 12.8% | 17.1% | 18.1% | 14.8% | 14.0% | 13.7% | 13.7% | 13.5% | 13.3% |
| Bonds | 15.2% | 28.2% | 12.9% | 15.8% | 14.2% | 13.7% | 13.6% | 13.1% | 12.9% |
| WA cost of financing (%) | 13.2% | 19.1% | 17.0% | 14.9% | 14.0% | 13.7% | 13.7% | 13.5% | 13.3% |
| Net Financial Expenses (IFRS) | (866) | (1,401) | (1,529) | (1,324) | (1,294) | (954) | (799) | (879) | (959) |
| | | | | | | | | | |
| **Spread** | | | | | | | | | |
| Nom. WACC - WA cost of financing | 9.8% | 10.8% | 12.7% | 9.6% | 7.3% | 7.1% | 7.0% | 6.8% | 6.7% |
| Financial income - net financial expenses (TL | 148 | 316 | 430 | 738 | 708 | 1,056 | 1,476 | 1,619 | 1,799 |
| | | | | | | | | | |
| **Selected Ratios** | | | | | | | | | |
| RAB (ave.) / Net debt (ave.) (RHS) | 0.7 | 0.7 | 0.9 | 1.0 | 1.2 | 1.6 | 1.9 | 1.9 | 1.9 |
| RAB (ave.) - Net debt (ave.) | (2,312) | (2,074) | (1,329) | (192) | 1,447 | 3,929 | 5,474 | 6,207 | 7,052 |

Source: Unlu Menkul estimates, Company financials

Enerjisa is trading at a significant discount vs peers on numerous metrics.

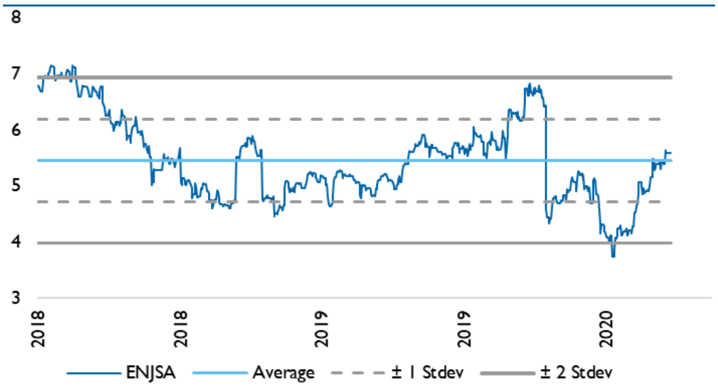
**Figure 30: Enerjisa's comparison vs peers ***

| Company Name | MCAP ($m) | P/E 19 | P/E 20E | P/E 21E | EV/EBITDA 19 | EV/EBITDA 20E | EV/EBITDA 21E | EBITDA margin 19 | EBITDA margin 20E | EBITDA margin 21E | Net Debt/ EBITDA 19 | Net Debt/ EBITDA 20E | Net Debt/ EBITDA 21E | Div yld 19 | Div yld 20E | Div yld 21E | ROE 19 | ROE 20E | ROE 21E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Water** | | **18.2** | **19.0** | **21.4** | **13.3** | **12.8** | **13.6** | **46%** | **46%** | **47%** | **6.0** | **6.2** | **5.6** | **3%** | **4%** | **4%** | **13%** | **13%** | **14%** |
| Pennon Grp Plc | 5,929 | 20.3 | 19.7 | 22.5 | 14.8 | 14.4 | 16.8 | 38% | 39% | 40% | 5.8 | 6.0 | 4.3 | 3% | 4% | 4% | 13% | 14% | 13% |
| Severn Trent | 7,478 | 18.6 | 18.3 | 22.3 | 13.4 | 13.2 | 13.7 | 51% | 51% | 50% | 6.3 | 6.6 | 7.1 | 3% | 4% | 4% | 29% | 26% | 22% |
| United Utilities | 8,012 | 17.7 | 15.5 | 20.5 | 13.2 | 12.4 | 13.5 | 59% | 61% | 59% | 6.5 | 6.4 | 7.0 | 4% | 4% | 5% | 12% | 13% | 11% |
| Sabesp | 7,158 | 13.2 | 21.1 | 11.1 | 7.5 | 7.7 | 6.6 | 41% | 41% | 44% | 1.9 | 2.2 | 1.8 | 2% | 2% | 2% | 13% | 8% | 14% |
| | | | | | | | | | | | | | | | | | | | |
| **Gas-Distribution** | | **12.7** | **14.5** | **13.0** | **10.2** | **9.8** | **9.2** | **32%** | **34%** | **35%** | **4.1** | **4.4** | **4.2** | **5%** | **5%** | **5%** | **15%** | **14%** | **14%** |
| Enagas Sa | 6,643 | 12.4 | 13.2 | 13.0 | 9.5 | 9.8 | 10.0 | 84% | 84% | 87% | 4.1 | 4.4 | 4.2 | 7% | 7% | 8% | 15% | 14% | 14% |
| Italgas Spa | 4,816 | 12.5 | 12.7 | 12.2 | 10.2 | 9.5 | 9.0 | 71% | 72% | 73% | 5.1 | 5.0 | 4.9 | 4% | 5% | 5% | 25% | 20% | 20% |
| National Grid Pl | 41,732 | 16.1 | 15.9 | 15.5 | 12.1 | 11.5 | 11.0 | 32% | 34% | 35% | 5.4 | 5.4 | 5.6 | 5% | 5% | 5% | 10% | 11% | 10% |
| ENN Energy Holdings | 13,680 | 18.4 | 16.2 | 14.1 | 11.7 | 10.6 | 9.2 | 13% | 13% | 13% | 1.2 | 1.2 | 0.9 | 1% | 2% | 2% | 22% | 21% | 21% |
| Naturgy Energy | 19,492 | 12.7 | 14.5 | 12.5 | 7.8 | 8.4 | 7.9 | 17% | 19% | 19% | 3.3 | 3.7 | 3.5 | 8% | 8% | 8% | 12% | 11% | 14% |
| | | | | | | | | | | | | | | | | | | | |
| **Electric-Integrated** | | **14.2** | **14.1** | **13.3** | **9.4** | **9.1** | **8.7** | **30%** | **31%** | **31%** | **2.6** | **2.7** | **2.6** | **4%** | **4%** | **5%** | **12%** | **12%** | **11%** |
| Tenaga Nasional | 16,070 | 12.2 | 12.9 | 12.4 | 8.0 | 7.5 | 7.3 | 33% | 34% | 34% | 1.6 | 2.2 | 2.1 | 5% | 5% | 5% | 9% | 9% | 9% |
| Enel Spa | 87,590 | 16.0 | 15.2 | 14.1 | 8.0 | 7.8 | 7.5 | 23% | 22% | 23% | 2.6 | 2.7 | 2.6 | 4% | 4% | 5% | 14% | 16% | 16% |
| Iberdrola Sa | 73,716 | 19.0 | 17.9 | 16.8 | 11.3 | 10.6 | 9.9 | 27% | 28% | 29% | 3.7 | 3.8 | 3.7 | 3% | 4% | 4% | 9% | 9% | 9% |
| Ppl Corp | 23,056 | 12.4 | 12.3 | 12.3 | 10.9 | 10.4 | 10.1 | 53% | 55% | 55% | n.a. | n.a. | n.a. | 5% | 5% | 6% | 14% | 14% | 13% |
| | | | | | | | | | | | | | | | | | | | |
| **Electric-Distribution** | | **16.6** | **16.2** | **14.4** | **11.1** | **10.6** | **8.9** | **16%** | **16%** | **19%** | **4.1** | **4.6** | **3.4** | **4%** | **4%** | **4%** | **20%** | **17%** | **18%** |
| Manila Electric | 6,530 | 14.0 | 14.9 | 14.5 | 7.1 | 7.8 | 7.5 | 12% | 11% | 11% | 0.2 | 0.0 | 0.0 | 5% | 5% | 5% | 27% | 25% | 24% |
| Innogy Se | 27,516 | 29.6 | 29.1 | 26.5 | 10.9 | 10.6 | 10.6 | 10% | 10% | 10% | 4.2 | 4.4 | 4.2 | 4% | 3% | 3% | 11% | 11% | 13% |
| Sse Plc | 16,763 | 19.0 | 15.4 | 14.2 | 12.2 | 12.4 | 11.8 | 7% | 27% | 29% | 4.8 | 5.2 | 5.0 | 7% | 8% | 6% | 14% | 15% | 16% |
| E.On Se | 30,170 | 15.6 | 16.2 | 14.4 | 11.1 | 8.3 | 8.0 | 16% | 11% | 11% | 5.9 | 5.3 | 5.0 | 4% | 5% | 5% | 21% | 18% | 20% |
| Equatorial E-Ord | 4,066 | 16.6 | 19.4 | 13.1 | 11.5 | 11.6 | 8.9 | 19% | 22% | 27% | 4.1 | 4.6 | 3.4 | 1% | 1% | 2% | 20% | 17% | 18% |
| Hydro One | 11,679 | 17.7 | 19.3 | 17.9 | 12.8 | 12.4 | 11.7 | 35% | 34% | 35% | 5.6 | 5.7 | 5.6 | 3% | 4% | 4% | 9% | 8% | 9% |
| Equatorial Energia | 4,066 | 16.6 | 19.4 | 13.1 | 11.5 | 11.6 | 8.9 | 19% | 22% | 27% | 4.1 | 4.6 | 3.4 | 1% | 1% | 2% | 20% | 17% | 18% |
| Manila electricity Compan | 6,530 | 14.0 | 14.9 | 14.5 | 7.1 | 7.8 | 7.5 | 12% | 11% | 11% | 0.2 | 0.0 | 0.0 | 5% | 5% | 5% | 27% | 25% | 24% |
| Tauron | 645 | 2.8 | 3.7 | 2.2 | 4.7 | 4.9 | 4.3 | 17% | 16% | 19% | 3.4 | 4.0 | 3.4 | 0% | 0% | 0% | 4% | 4% | 6% |
| Energa | 876 | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | |
| **Electric-Transmission** | | **12.7** | **13.7** | **13.7** | **10.1** | **10.2** | **10.1** | **75%** | **73%** | **73%** | **4.6** | **4.1** | **3.9** | **5%** | **5%** | **5%** | **17%** | **17%** | **17%** |
| Red Electrica | 10,329 | 12.7 | 13.7 | 13.7 | 10.1 | 10.2 | 10.1 | 79% | 77% | 78% | 3.8 | 3.9 | 3.9 | 6% | 6% | 6% | 21% | 18% | 18% |
| Terna Rete | 14,504 | 17.3 | 16.8 | 16.4 | 12.3 | 11.8 | 11.5 | 75% | 73% | 73% | 4.9 | 4.9 | 5.1 | 4% | 4% | 4% | 18% | 17% | 17% |
| Elia System Operator | 8,049 | 26.6 | 25.6 | 25.1 | 15.1 | 14.6 | 14.4 | 41% | 40% | 40% | 5.1 | 6.1 | 6.1 | 2% | 2% | 2% | 7% | 7% | 8% |
| Federal Grid | 3,419 | 2.8 | 3.0 | 2.9 | 2.9 | 3.1 | 3.0 | 56% | 53% | 53% | 1.4 | 1.3 | 1.3 | 9% | 10% | 9% | 10% | 8% | 8% |
| Power Grid Corp of India | 12,011 | 9.5 | 8.2 | 7.5 | 7.5 | 6.6 | 6.4 | 87% | 91% | 88% | 4.6 | 4.1 | 3.8 | n.a. | n.a. | 5% | 17% | 18% | 18% |
| | | | | | | | | | | | | | | | | | | | |
| **Enerjisa Enerji** | **1,459** | **9.5** | **7.1** | **5.6** | **4.9** | **4.4** | **4.0** | **19%** | **19%** | **18%** | **2.7** | **2.2** | **1.6** | **5%** | **7%** | **9%** | **22%** | **20%** | **22%** |

Source: Bloomberg Finance L.P., * based on consensus estimates.

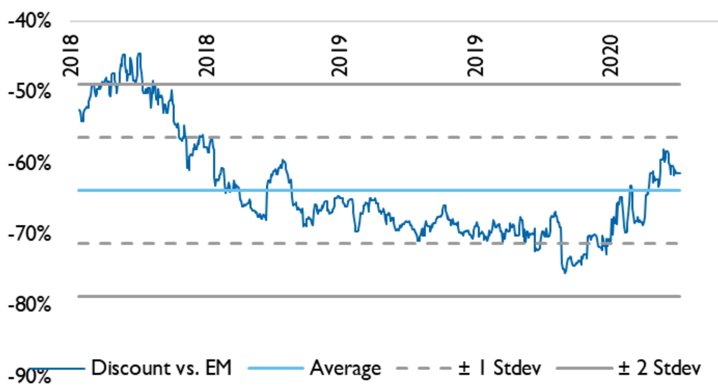
Accordingly, Enerjisa is trading at a consensus FY21E P/E of 5.6x, implying a 61% discount vs its peer universe (3Y average discount: 64%).

**Figure 31: Enerjisa's 1Y FWD consensus P/E progression**




Source: Bloomberg Finance L.P.

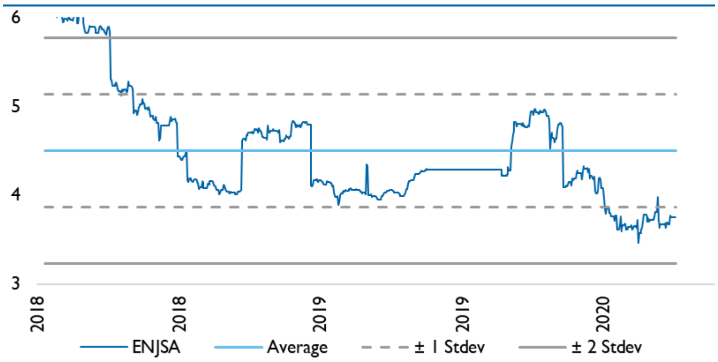
**Figure 32: Enerjisa's 1Y FWD P/E discount to distribution peers**




Source: Bloomberg Finance L.P.

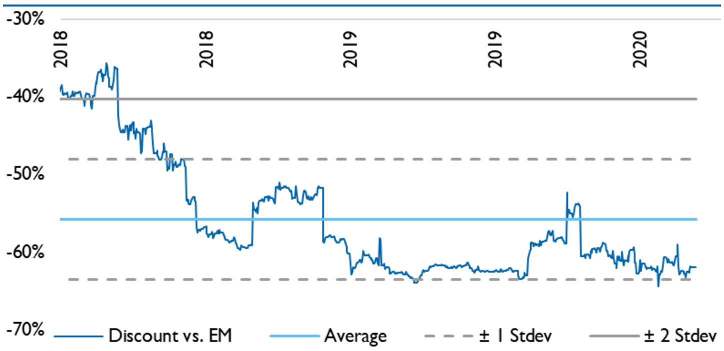
The shares are also trading at a significant discount of 62% on FY21E EV/EBITDA (3Y average discount: 56%). Enerjisa is a relatively new company (c. 10 years of operating distribution assets) vs its more established peers. We perceive that as it builds up a track record in terms of operational performance and dividend distribution, this will provide the basis for a lower discount to peers. Besides, following the announcement of the fourth term regulatory parameters, operational visibility should improve for the next five years.

**Figure 33: Enerjisa's 1Y FWD consensus EV/EBITDA progression**




Source: Bloomberg Finance L.P.

**Figure 34: Enerjisa's 1Y FWD EV/EBITDA discount to distribution peers**




Source: Bloomberg Finance L.P.

Our FY20 and FY21 estimates are broadly in line with consensus expectations.

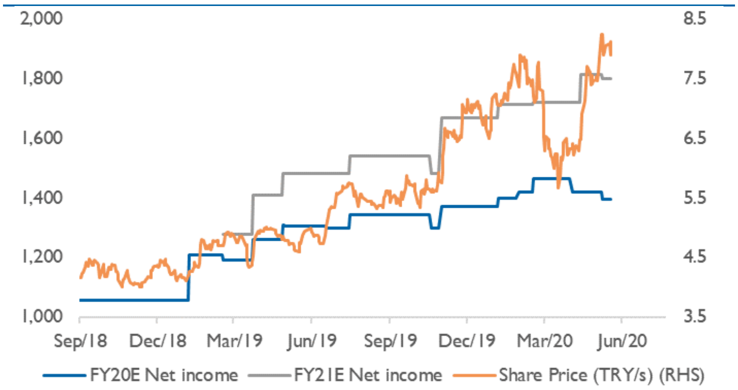
**Figure 35: Unlu estimates vs Bloomberg consensus**

| | 2020E | | | 2021E | | |
|---|---|---|---|---|---|---|
| Cons. | Unlu | Cons. | Diff., % | Unlu | Cons. | Diff., % |
| Revenues | 20,429 | 21,413 | *-5%* | 24,005 | 25,692 | *-7%* |
| EBITDA | 3,893 | 4,110 | *-5%* | 4,284 | 4,570 | *-6%* |
| *EBITDA M., %* | 19% | 19% | *0 pps* | 18% | 18% | *0 pps* |
| Net Income | 1,430 | 1,419 | *1%* | 1,828 | 1,813 | *1%* |

Source: Bloomberg Finance L.P., Unlu Menkul estimates

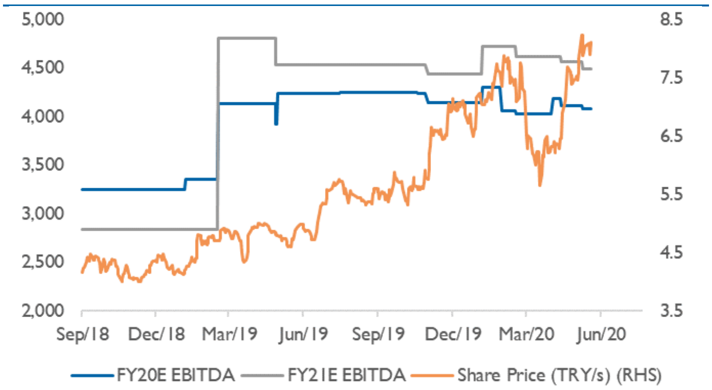
We expect Enerjisa's share price performance to remain sensitive to its 2021 net earnings trajectory, as it is the key determinant of prospective dividend payments.

**Figure 36: FY20E & FY21E cons net income progression vs share price**




Source: Bloomberg Finance L.P.

**Figure 37: FY20E & FY21E cons EBITDA progression vs share price**




Source: Bloomberg Finance L.P.

# 1Q20 results review

Enerjisa reported TL341m in net income in its 1Q20 IFRS results, slightly lower than consensus estimates: Enerjisa Enerji announced TL341m of net income in 1Q20 (up 15% y/y and up 40% q/q), slightly lower than the consensus estimate of TL381m (negative deviation: 0.1% of mcap). Net sales increased by 29% y/y and were up by 18% q/q, to TL5,779m, in 1Q20 (consensus estimate: TL5,044m). EBITDA rose by 21% y/y and increased by 85% q/q, to TL1,057m, in 1Q20, lower than market consensus expectations of TL1,221m (negative deviation: 0.6% of mcap), with the EBITDA margin decreasing by 1.2pp y/y and contracting by 6.6pp q/q, to 18.3%.

Regarding Enerjisa's specific metrics, **1)** operational earnings rose to TL1.3bn (up 13% y/y, up 13% q/q), 85% of which is distribution segment-related, led by higher financial income and capex reimbursements in the segment; **2)** underlying net income realised at TL352m (up 19% y/y, down 7% q/q), with the positive impact of lower net loan interest and financial expenses partially offset by higher bond interest expenses. Enerjisa's average cost of financing from loans decreased from 17.8% at 1Q19 to 14.9% at 1Q20 while the average cost of bond financing increased from 1.5% to 14.8%; **3)** distribution capex of TL150m (up 138% y/y, down 75% q/q); and 4) RAB grew to TL9.3bn (up 12%, up 11% q/q).

For 2020, Enerjisa is guiding for: **1)** operational earnings growth at least in line with inflation (TL4.6bn in 2019); **2)** RAB higher than TL9.4bn (at least 12% higher than the TL8.4bn recorded in 2019); **3)** dividend growth higher than inflation, with a 60-70% dividend payout; and **4)** financial leverage lower than 2x (net debt/EBITDA).

**Figure 38: Earnings review: Enerjisa Enerji**

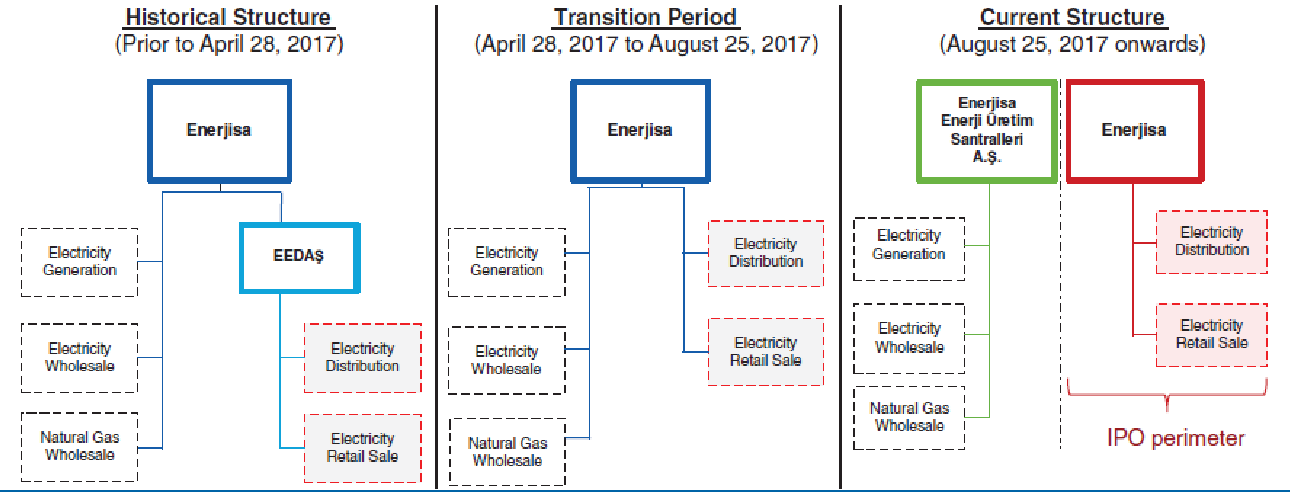
| TLm | 1Q19 | 4Q19 | 1Q20 | y/y | q/q | Estimates ÜnlüCo | Estimates Cons. | % Dev. vs. ÜnlüCo | % Dev. vs. Cons | Dev./mcap vs. ÜnlüCo | Dev./mcap vs. Cons |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 4,484 | 4,887 | 5,779 | 29% | 18% | n.a. | 5,044 | n.a. | 15% | n.a. | 2.7% |
| EBITDA | 872 | 573 | 1,057 | 21% | 85% | n.a. | 1,221 | n.a. | -13% | n.a. | -0.6% |
| EBITDA margin | 19.5% | 11.7% | 18.3% | -1.2pp | 6.6pp | n.a. | 24.2% | n.a. | | n.a. | |
| Net profit | 297 | 244 | 341 | 15% | 40% | n.a. | 381 | n.a. | -11% | n.a. | -0.1% |
| Net margin | 6.6% | 5.0% | 5.9% | -0.7pp | 0.9pp | n.a. | 7.6% | n.a. | | n.a. | |

Source: Company financials, Rasyonet

# Company background

Enerjisa, the leading electricity distribution and retail company in Turkey with 11.2m distribution connections (25% of total) as of 2019, was founded in 1996, primarily as an electricity generation business. The company acquired the Baskent electricity distribution region in 2009, followed by the acquisitions of the Ayedas and Toroslar regions in 2013. Earlier in 2013, E.ON replaced Verbund as Sabanci Holding's partner in the company.

**Figure 39: Evolution of Enerjisa's corporate structure progression**




Source: Company data, Unlu Menkul

Enerjisa's generation and wholesale businesses were spun off from the distribution and retail businesses in 2017. Enerjisa, as the distribution and retail company, was IPO'd in February 2018 and listed on the BIST index.

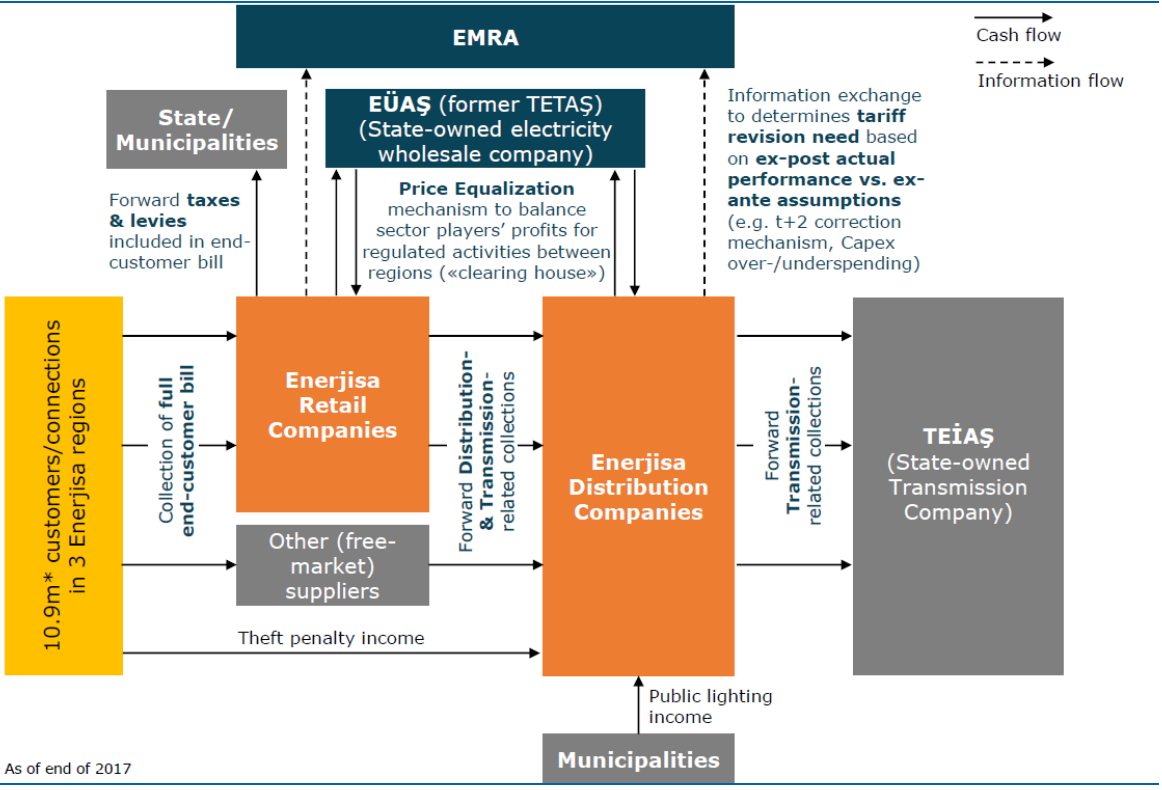
**Figure 40: Enerjisa's distribution network layout ***


Source: Company data; * as of 1Q20

While distribution business revenues are primarily TL-denominated, the underlying inflation pass-through mechanism offers a natural hedge against the prospects of sticky inflation, in our view, and is protective of the business' real returns. This should be supportive of the returns on Enerjisa's RAB (TL9.3bn as of 1Q20).

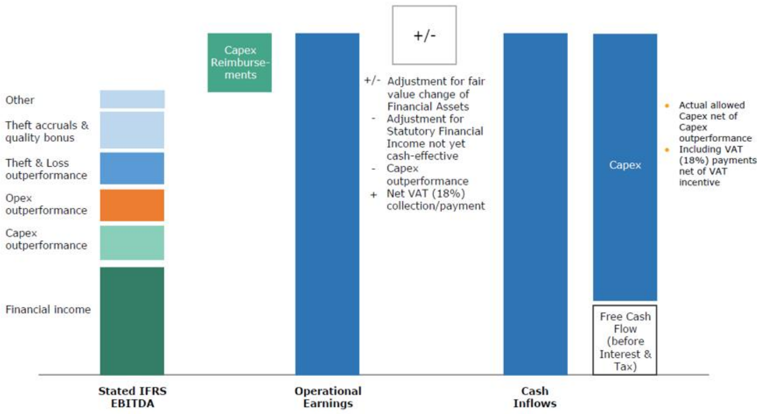
# Key charts on regulatory background

**Figure 41: Collection mechanism in the Turkish electricity distribution sector**



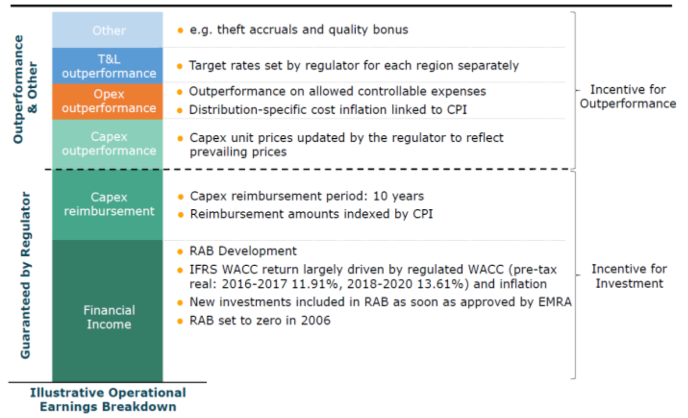

Source: Company data

**Figure 42: Earnings and cash generation in IFRS (Distribution)**




Source: Company data

**Figure 43: Illustrative operational earnings breakdown (Distribution)**




Source: Company data

**Figure 44: Enerjisa's segmental cashflow breakdown**

**SEGMENTAL CASHFLOW**

**DISTRIBUTION**

| | 2017 | 2018 | 2019 | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial income** | **1,014** | **1,717** | **1,959** | **197** | **220** | **248** | **349** | **305** | **369** | **357** | **686** | **470** | **502** | **525** | **462** | **511** |
| **CAPEX Reimbursement** | **592** | **798** | **1,058** | **144** | **152** | **148** | **148** | **191** | **208** | **200** | **199** | **280** | **249** | **264** | **265** | **336** |
| **Efficiency & Quality** | **605** | **816** | **902** | **94** | **150** | **131** | **230** | **227** | **156** | **201** | **232** | **179** | **220** | **235** | **268** | **180** |
| *Theft & Accrual Collection* | *278* | *416* | *469* | *35* | *26* | *48* | *170* | *73* | *54* | *136* | *153* | *57* | *74* | **211** | **127** | *115* |
| *E&Q CAPEX OP* | *145* | *106* | *72* | *8* | *48* | *34* | *55* | *9* | *45* | *34* | *18* | *7* | *49* | **14** | **2** | *4* |
| *E&Q OPEX OP* | *48* | *82* | *90* | *30* | *43* | *(2)* | *(23)* | *57* | *35* | *13* | *(24)* | *45* | *51* | **44** | **(49)** | *32* |
| *E&Q T&L OP* | *133* | *98* | *117* | *21* | *33* | *51* | *28* | *25* | *17* | *16* | *40* | *20* | *24* | **39** | **35** | *29* |
| *Quality Bonus* | *0* | *114* | *162* | *0* | *0* | *0* | *0* | *64* | *5* | *1* | *44* | *50* | *22* | **(72)** | **162** | *0* |
| **Tax correction** | **86** | **133** | **174** | **21** | **12** | **14** | **39** | **29** | **31** | **30** | **43** | **46** | **41** | **43** | **44** | **54** |
| **Other** | **47** | **26** | **(20)** | **29** | **(6)** | **32** | **(8)** | **10** | **0** | **80** | **(64)** | **11** | **(16)** | **(13)** | **(2)** | **1** |
| **Operational Earnings** | **2,344** | **3,490** | **4,073** | **485** | **528** | **573** | **758** | **762** | **764** | **868** | **1,096** | **986** | **996** | **1,054** | **1,037** | **1,082** |
| Financial income not yet cash effective | (577) | (1,082) | (1,178) | (90) | (108) | (140) | (239) | (154) | (204) | (198) | (526) | (263) | (319) | **(329)** | **(267)** | (283) |
| CAPEX Outperformance | (142) | (105) | (69) | (9) | (48) | (35) | (50) | (9) | (45) | (34) | (17) | (4) | (29) | **(35)** | **(1)** | (3) |
| NET VAT received / paid | 108 | 362 | 410 | 27 | 232 | (39) | (112) | 50 | 187 | 76 | 49 | 76 | 171 | **153** | **10** | 177 |
| Other (Working Capital) | (87) | (291) | (859) | (262) | 42 | (101) | 234 | (555) | 15 | (161) | 410 | (655) | (318) | **(255)** | **369** | (379) |
| **Operating Cash Flow before Interest & Taxes** | **1,646** | **2,374** | **2,377** | **151** | **646** | **258** | **591** | **94** | **717** | **551** | **1,012** | **140** | **501** | **588** | **1,148** | **594** |
| *Actual allowed CAPEX (Nominal)* | ***(1,573)*** | ***(1,605)*** | ***(1,418)*** | ***(131)*** | ***(424)*** | ***(561)*** | ***(457)*** | ***(127)*** | ***(657)*** | ***(463)*** | ***(358)*** | ***(63)*** | ***(234)*** | ***(532)*** | ***(589)*** | ***(150)*** |
| *CAPEX Outperformance* | *142* | *105* | *69* | *9* | *48* | *35* | *50* | *9* | *45* | *34* | *17* | *4* | *29* | **35** | **1** | *3* |
| *VAT Paid* | *(308)* | *(308)* | *(255)* | *(58)* | *1* | *(74)* | *(177)* | *(91)* | *(69)* | *(94)* | *(54)* | *(11)* | *(42)* | **(96)** | **(106)** | *(27)* |
| *Previous year / unpaid CAPEX* | *34* | *259* | *49* | *(210)* | *(15)* | *92* | *167* | *(280)* | *312* | *23* | *204* | *(365)* | *(228)* | **225** | **417** | *(513)* |
| **Cash Effective CAPEX** | **(1,705)** | **(1,549)** | **(1,555)** | **(390)** | **(390)** | **(508)** | **(417)** | **(489)** | **(369)** | **(500)** | **(191)** | **(435)** | **(475)** | **(368)** | **(277)** | **(687)** |
| **FCF before Interest & Taxes** | **(59)** | **825** | **822** | **(239)** | **256** | **(250)** | **174** | **(395)** | **348** | **51** | **821** | **(295)** | **26** | **220** | **871** | **(93)** |
| | | | | | | | | | | | | | | | | |
| **Efficiency & Quality Breakdown** | | | | | | | | | | | | | | | | |
| *Theft & Accrual Collection* | *46%* | *51%* | *52%* | *37%* | *17%* | *36%* | *74%* | *32%* | *34%* | *68%* | *66%* | *32%* | *34%* | *90%* | *47%* | *64%* |
| *CAPEX Outperformance* | *24%* | *13%* | *8%* | *9%* | *32%* | *26%* | *24%* | *4%* | *29%* | *17%* | *8%* | *4%* | *22%* | *6%* | *1%* | *2%* |
| *OPEX Outperformance* | *8%* | *10%* | *10%* | *32%* | *29%* | *-1%* | *-10%* | *25%* | *23%* | *7%* | *-10%* | *25%* | *23%* | *19%* | *-18%* | *18%* |
| *T&L Outperformance* | *22%* | *12%* | *13%* | *22%* | *22%* | *39%* | *12%* | *11%* | *11%* | *8%* | *17%* | *11%* | *11%* | *16%* | *13%* | *16%* |
| *Quality Bonus* | *0%* | *14%* | *18%* | *0%* | *0%* | *0%* | *0%* | *28%* | *3%* | *1%* | *19%* | *28%* | *10%* | *-31%* | *61%* | *0%* |
| *Total* | ***100%*** | ***100%*** | ***101%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***103%*** | ***100%*** |

**RETAIL**

| | 2017 | 2018 | 2019 | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Regulated Gross profit | 335 | 621 | 657 | 73 | 78 | 88 | 96 | 144 | 140 | 182 | 155 | 174 | 193 | **208** | **82** | 182 |
| Liberalized Gross Profit | 74 | 46 | 97 | 10 | 0 | 25 | 39 | 19 | 0 | 15 | 12 | 10 | 8 | **19** | **60** | 102 |
| Customer Solutions Gross Profit | 0 | 11 | 19 | 0 | 0 | 0 | 0 | 2 | 3 | 4 | 2 | 3 | 5 | **6** | **5** | 5 |
| Opex | (246) | (323) | (325) | (56) | (53) | (57) | (80) | (64) | (61) | (64) | (134) | (74) | (72) | **(76)** | **(103)** | (96) |
| ***Bad debt related income and expense*** | ***84*** | ***35*** | ***111*** | ***6*** | ***18*** | ***36*** | ***24*** | ***14*** | ***15*** | ***18*** | ***(12)*** | ***29*** | ***15*** | **12** | **55** | ***(5)*** |
| *Bonus collections* | *93* | *58* | *39* | *11* | *20* | *36* | *26* | *8* | *8* | *19* | *23* | *8* | *6* | **10** | **15** | *6* |
| *Late payment income* | *71* | *84* | *144* | *19* | *18* | *17* | *17* | *17* | *17* | *20* | *30* | *30* | *32* | **41** | **41** | *31* |
| *Doubtful provision expense* | *(75)* | *(84)* | *(63)* | *(23)* | *(18)* | *(18)* | *(16)* | *(7)* | *(14)* | *(16)* | *(47)* | *(8)* | *(20)* | **(31)** | **(4)** | *(33)* |
| *Other* | *(5)* | *(23)* | *(9)* | *(1)* | *(2)* | *1* | *(3)* | *(4)* | *4* | *(5)* | *(18)* | *(1)* | *(3)* | **(8)** | **3** | *(9)* |
| **Operational Earnings** | **247** | **390** | **559** | **33** | **43** | **92** | **79** | **115** | **97** | **155** | **23** | **142** | **149** | **169** | **99** | **188** |
| Price equalization effects | 14 | (454) | 811 | 10 | (89) | 44 | 49 | (256) | (119) | (327) | 248 | 498 | (168) | **249** | **232** | (51) |
| Net customer deposit additions | 140 | 246 | 64 | 31 | 26 | 42 | 41 | 111 | 46 | 39 | 50 | 31 | 26 | **29** | **(22)** | (37) |
| Other (Working Capital) | (72) | (317) | 342 | 144 | (121) | (57) | (38) | (68) | (94) | 39 | (194) | (75) | 509 | **(391)** | **299** | 4 |
| **Operating Cash Flow before Interest & Taxes** | **329** | **(135)** | **1,776** | **218** | **(141)** | **121** | **131** | **(98)** | **(70)** | **(94)** | **127** | **596** | **516** | **56** | **608** | **104** |
| Capex | (30) | (38) | (51) | (8) | (5) | (12) | (5) | (12) | (16) | (4) | (6) | (21) | (6) | **(7)** | **(17)** | (12) |
| **FCF before interest & taxes** | **299** | **(173)** | **1,725** | **210** | **(146)** | **109** | **126** | **(110)** | **(86)** | **(98)** | **121** | **575** | **510** | **49** | **591** | **92** |

Source: Company data

## Figure 45: Enerjisa's segmental income statement

| INCOME STATEMENTS (TLm) | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **DISTRIBUTION** | **2017** | **2018** | **2019** | **1Q17** | **2Q17** | **3Q17** | **4Q17** | **1Q18** | **2Q18** | **3Q18** | **4Q18** | **1Q19** | **2Q19** | **3Q19** | **4Q19** | **1Q20** |
| **Sales Revenue** | **4,934** | **6,986** | **6,599** | **1,046** | **1,107** | **1,060** | **1,721** | **1,283** | **1,489** | **1,434** | **2,780** | **1,689** | **1,618** | **1,806** | **1,486** | **2,015** |
| *Financial income* | *1,014* | *1,717* | *1,959* | *197* | *220* | *248* | *349* | *305* | *369* | *357* | *686* | *470* | *502* | **525** | **462** | *511* |
| *Distribution revenue* | *3,146* | *4,281* | *3,351* | *650* | *712* | *615* | *1,169* | *731* | *895* | *874* | *1,781* | *844* | *861* | **939** | **707** | *1,049* |
| *Pass-through transmission revenue* | *597* | *760* | *998* | *150* | *139* | *157* | *151* | *189* | *180* | *152* | *239* | *298* | *197* | **282** | **221** | *367* |
| *Lighting sales revenue* | *177* | *228* | *291* | *49* | *38* | *38* | *52* | *58* | *45* | *51* | *74* | *77* | *58* | **60** | **96** | *88* |
| **Cost of Sales** | **(1,402)** | **(1,690)** | **(2,029)** | **(374)** | **(317)** | **(352)** | **(359)** | **(423)** | **(384)** | **(404)** | **(479)** | **(575)** | **(410)** | **(537)** | **(507)** | **(730)** |
| *Energy purchases (Lighting, T&L)* | *(795)* | *(930)* | *(1,024)* | *(224)* | *(179)* | *(194)* | *(198)* | *(234)* | *(203)* | *(253)* | *(240)* | *(277)* | *(213)* | **(248)** | **(286)** | *(363)* |
| *Pass-through transmission cost* | *(597)* | *(760)* | *(998)* | *(150)* | *(139)* | *(157)* | *(151)* | *(189)* | *(180)* | *(152)* | *(239)* | *(298)* | *(197)* | **(282)** | **(221)** | *(367)* |
| *Other* | *(10)* | *0* | *(7)* | *0* | *0* | *0* | *(10)* | *0* | *0* | *0* | *0* | *0* | *0* | **(7)** | **0** | *0* |
| **Gross Profit** | **3,532** | **5,296** | **4,570** | **672** | **790** | **708** | **1,362** | **860** | **1,105** | **1,030** | **2,301** | **1,114** | **1,208** | **1,269** | **979** | **1,285** |
| OPEX | (1,072) | (1,272) | (1,563) | (232) | (231) | (264) | (345) | (284) | (298) | (320) | (370) | (368) | (343) | **(378)** | **(474)** | (444) |
| Other Income/(Expense) | (143) | (240) | (105) | (31) | (51) | (18) | (43) | (2) | (28) | 5 | (215) | (59) | (164) | **(118)** | **236** | (101) |
| **Operating profit before finance income/(expense** | **2,317** | **3,784** | **2,902** | **409** | **508** | **426** | **974** | **574** | **780** | **714** | **1,716** | **687** | **701** | **773** | **741** | **740** |
| Adjustment of depreciation and amortization | 16 | 26 | 113 | 2 | 0 | 9 | 5 | 4 | 4 | 5 | 13 | 20 | 34 | **22** | **37** | 34 |
| Adjustments related to operational fx gains and losses | 0 | 44 | 4 | 0 | 0 | 1 | (1) | (8) | 24 | 29 | (1) | (3) | 11 | **(5)** | **1** | (10) |
| Interest income related to revenue cap regulation | 1 | (44) | (186) | 0 | 0 | 0 | 1 | (8) | (8) | (7) | (21) | (3) | (3) | **(2)** | **(178)** | (10) |
| **EBITDA** | **2,334** | **3,810** | **2,833** | **411** | **509** | **435** | **979** | **570** | **793** | **740** | **1,707** | **706** | **738** | **788** | **601** | **770** |
| CAPEX Reimbursements | 592 | 798 | 1,058 | 144 | 152 | 148 | 148 | 191 | 208 | 200 | 199 | 280 | 249 | **264** | **265** | 336 |
| **EBITDA+CAPEX Reimbursements** | **2,926** | **4,608** | **3,891** | **555** | **661** | **583** | **1,127** | **762** | **1,000** | **940** | **1,906** | **986** | **987** | **1,052** | **866** | **1,106** |
| Fair value changes of financial assets | (467) | (984) | 230 | 0 | (133) | (10) | (324) | 0 | (244) | 2 | (742) | 0 | 9 | **1** | **220** | 0 |
| Competition Authority penalty provision | 0 | 8 | (48) | 0 | 0 | 0 | 0 | 0 | 8 | 0 | 0 | 0 | 0 | **0** | **(48)** | 0 |
| Non-recurring income related to previous years | (115) | (142) | 0 | (70) | 0 | 0 | (45) | 0 | 0 | (74) | (68) | 0 | 0 | **0** | **0** | 0 |
| **Operational earnings** | **2,344** | **3,490** | **4,073** | **485** | **528** | **573** | **758** | **762** | **764** | **868** | **1,096** | **986** | **996** | **1,053** | **1,038** | **1,106** |
| **Margins, %** | | | | | | | | | | | | | | | | |
| *Gross Profit* | *72%* | *76%* | *69%* | *64%* | *71%* | *67%* | *79%* | *67%* | *74%* | *72%* | *83%* | *66%* | *75%* | *70%* | *66%* | *64%* |
| *EBITDA* | *47%* | *55%* | *43%* | *39%* | *46%* | *41%* | *57%* | *44%* | *53%* | *52%* | *61%* | *42%* | *46%* | *44%* | *40%* | *38%* |
| *EBITDA+CAPEX Reimbursements* | *59%* | *66%* | *59%* | *53%* | *60%* | *55%* | *65%* | *59%* | *67%* | *66%* | *69%* | *58%* | *61%* | *58%* | *58%* | *55%* |
| *Operational earnings* | *48%* | *50%* | *62%* | *46%* | *48%* | *54%* | *44%* | *59%* | *51%* | *61%* | *39%* | *58%* | *62%* | *58%* | *70%* | *55%* |
| **RETAIL (TLm)** | **2017** | **2018** | **2019** | **1Q17** | **2Q17** | **3Q17** | **4Q17** | **1Q18** | **2Q18** | **3Q18** | **4Q18** | **1Q19** | **2Q19** | **3Q19** | **4Q19** | **1Q20** |
| **Sales Revenue (net)** | **10,520** | **11,361** | **12,854** | **2,498** | **2,367** | **2,872** | **2,783** | **2,777** | **2,258** | **3,231** | **3,095** | **2,795** | **3,222** | **3,435** | **3,402** | **3,764** |
| Regulated | 5,075 | 10,301 | 11,369 | 1,071 | 1,118 | 1,413 | 1,473 | 2,408 | 2,058 | 2,960 | 2,875 | 2,547 | 2,905 | **3,052** | **2,865** | 2,941 |
| Liberalised | 2,256 | 1,044 | 1,464 | 592 | 537 | 598 | 529 | 367 | 197 | 266 | 214 | 244 | 312 | **377** | **531** | 818 |
| Pass-through grid revenue | 3,189 | 0 | 0 | 835 | 712 | 861 | 781 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **0** | 0 |
| Customer solutions | 0 | 16 | 21 | 0 | 0 | 0 | 0 | 2 | 3 | 5 | 6 | 4 | 5 | **6** | **6** | 5 |
| **Cost of Sales (-)** | **(10,109)** | **(10,690)** | **(12,080)** | **(2,415)** | **(2,276)** | **(2,752)** | **(2,666)** | **(2,613)** | **(2,115)** | **(3,037)** | **(2,925)** | **(2,608)** | **(3,018)** | **(3,202)** | **(3,252)** | **(3,486)** |
| Regulated | (4,740) | (9,679) | (10,711) | (998) | (1,041) | (1,325) | (1,376) | (2,264) | (1,918) | (2,778) | (2,719) | (2,373) | (2,712) | **(2,845)** | **(2,781)** | (2,759) |
| Liberalised | (2,180) | (1,003) | (1,362) | (582) | (523) | (566) | (509) | (349) | (197) | (259) | (198) | (234) | (304) | **(355)** | **(469)** | (725) |
| Pass-through grid cost | (3,189) | 0 | 0 | (835) | (712) | (861) | (781) | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **0** | 0 |
| Customer solutions | 0 | (8) | (7) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (8) | (1) | (2) | **(2)** | **(2)** | (2) |
| **Gross Profit** | **411** | **671** | **774** | **83** | **91** | **120** | **117** | **164** | **143** | **194** | **170** | **187** | **204** | **233** | **150** | **278** |
| OPEX | (253) | (341) | (367) | (58) | (55) | (59) | (81) | (70) | (66) | (70) | (135) | (85) | (80) | **(87)** | **(115)** | (108) |
| Other Income/(Expense) | 4 | (305) | (9) | (24) | (16) | 26 | 18 | (11) | (120) | (25) | (149) | 38 | (18) | **(27)** | **(2)** | (23) |
| **Operating profit before finance income** | **161** | **25** | **398** | **1** | **20** | **87** | **53** | **83** | **(43)** | **99** | **(114)** | **140** | **106** | **119** | **33** | **147** |
| Adjustment of depreciation and amortization | 8 | 23 | 47 | 2 | 2 | 2 | 2 | 6 | 5 | 6 | 6 | 11 | 10 | **11** | **15** | 14 |
| Adjustments related to fair value difference arising from | 79 | 243 | 114 | 30 | 21 | 3 | 25 | 26 | 36 | 50 | 131 | (9) | 33 | **36** | **54** | 35 |
| **EBITDA** | **247** | **291** | **559** | **33** | **43** | **92** | **79** | **115** | **(2)** | **155** | **23** | **142** | **149** | **166** | **102** | **196** |
| Competition Authority penalty provision | 0 | 99 | 0 | 0 | 0 | 0 | 0 | 0 | 99 | 0 | 0 | 0 | 0 | **0** | **0** | (8) |
| **Operational earnings** | **247** | **390** | **559** | **33** | **43** | **92** | **79** | **115** | **97** | **155** | **23** | **142** | **149** | **166** | **102** | **188** |
| **Margins, %** | | | | | | | | | | | | | | | | |
| *Gross Profit* | *4%* | *6%* | *6%* | *3%* | *4%* | *4%* | *4%* | *6%* | *6%* | *6%* | *5%* | *7%* | *6%* | *7%* | *4%* | *7%* |
| *EBITDA* | *2%* | *3%* | *4%* | *1%* | *2%* | *3%* | *3%* | *4%* | *0%* | *5%* | *1%* | *5%* | *5%* | *5%* | *3%* | *5%* |
| *Operational Earnings* | *2%* | *3%* | *4%* | *1%* | *2%* | *3%* | *3%* | *4%* | *4%* | *5%* | *1%* | *5%* | *5%* | *5%* | *3%* | *5%* |
| **SEGMENTAL CONTRIBUTION (%)** | | | | | | | | | | | | | | | | |
| **Sales Revenue** | | | | | | | | | | | | | | | | |
| *Distribution* | 32% | 38% | 34% | 30% | 32% | 27% | 38% | 32% | 40% | 31% | 47% | 38% | 33% | 34% | 30% | 35% |
| *Retail* | 68% | 62% | 66% | 70% | 68% | 73% | 62% | 68% | 60% | 69% | 53% | 62% | 67% | 66% | 70% | 65% |
| **EBITDA** | | | | | | | | | | | | | | | | |
| *Distribution* | 90% | 93% | 84% | 93% | 92% | 83% | 93% | 83% | 100% | 83% | 99% | 83% | 83% | 83% | 85% | 80% |
| *Retail* | 10% | 7% | 16% | 7% | 8% | 17% | 7% | 17% | 0% | 17% | 1% | 17% | 17% | 17% | 15% | 20% |
| **Operational earnings** | | | | | | | | | | | | | | | | |
| *Distribution* | 90% | 90% | 88% | 94% | 92% | 86% | 91% | 87% | 89% | 85% | 98% | 87% | 87% | 86% | 91% | 85% |
| *Retail* | 10% | 10% | 12% | 6% | 8% | 14% | 9% | 13% | 11% | 15% | 2% | 13% | 13% | 14% | 9% | 15% |

Source: Company data

*Companies Mentioned (Price as of June 8, 2020)*
Enerjisa Enerji A.S. (ENJSA.IS, Buy, TP TL10.60)
Sabanci Holding (SAHOL.IS, Buy, TP: TL11.70)

# Disclosure Appendix

## Important Global Disclosures

The information and opinions in this research report were prepared by UNLU Menkul Degerler A.S ("Unlu Menkul").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please contact Unlu Menkul Research and / or Compliance - +90 212 367 3636.

For valuation methodology and risks associated with any price targets referenced in this research report, please email: UnluResearch@unluco.com with a request for valuation methodology and risks on a particular stock.

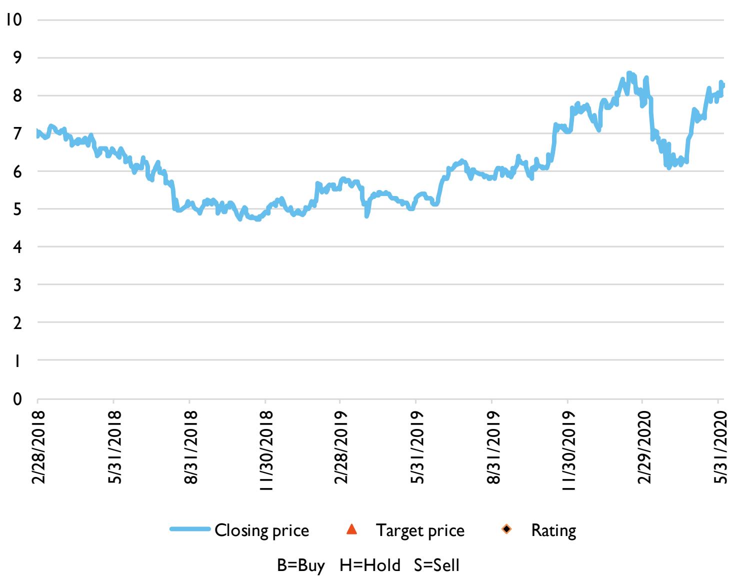
The following analyst/s: Koray Pamir certify(ies), with respect to the companies or securities under analysis, that (1) the views expressed in this report accurately reflect his/her/their personal views about all of the subject companies and securities and (2) no part of their compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

* Any other material conflict of interest of the research analyst or member (Unlu Securities Inc., the US broker-dealer) that the research analyst or an associated person of the member with the ability to influence the content of a research report knows or has reason to know at the time of the publication or distribution of a research report is as follows: NONE

*See the Companies Mentioned section for full company names.*

**3-Year Price, Target Price and Rating Change History Chart for ENJSA.IS**

| ENJSA.IS Date | Closing Price | Target Price | Rating | Initiation/ Assumption |
|---|---|---|---|---|
| 6/9/2020 | | **10.60** | **Buy** | |




Analysts' stock ratings are defined as follows*:
**Buy (B):** The stock's total return* is expected to be more than 20% (or more, depending on perceived risk) over the next 12 months.
**Hold (H):** The stock's total return is expected to be in the range of 10-20% over the next 12 months.

**Sell (S):** The stock's total return is expected to be less than 10% over the next 12 months.

**Restricted (R):** In certain circumstances, Unlu Menkul and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Unlu Menkul's engagement in an investment banking transaction and in certain other circumstances.
**Speculative Buy:** Unlu Menkul may issue a "Speculative Buy" when the Research Analyst covering the Company is of the view that the risk/reward tradeoff is somewhat less compelling than that of a BUY rating. These companies tend to have very high upside potential, but also a great degree of risk or uncertainty with regard to future financial results.
**Relative Three-Month Ratings:** Unlu Menkul may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over

a three (3) month period. The relative call may highlight a specific near-term catalyst or event impacting the Company or the market that is anticipated to have a short-term price impact on the equity securities of the Company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under coverage, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock` fundamental equity rating, which reflects a longer-term total absolute return expectation.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark**:**
**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.
**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.
**Not Covered:** Unlu Menkul Equities Research does not cover the issuer or offer an investment view on the issuer or any securities related to it. Any communication from Research on securities or companies that Unlu Menkul does not cover is factual or a reasonable, non-material deduction based on an analysis of publicly available information or consensus forecasts

*Total return is calculated as the sum of the stock's expected Capital Appreciation and expected Dividend Yield.

*Unlu Menkul Small and Mid-Cap Advisor stock: Stock ratings are relative to the Borsa Istanbul A.S ("BIST") index.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

### Unlu Menkul distribution of stock rating is:

| Ratings Distribution as of the date of this report | Buy | Hold | Sell | RESTRICTED |
|---|---|---|---|---|
| All Recommendations (%) | 63% | 37% | 0% | - |

* our stock ratings of **BUY**, **HOLD**, and **SELL** most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Unlu Menkul policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Unlu Menkul policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please contact the Compliance Division of Unlu Menkul and request their Policies for Managing Conflicts of Interest in connection with Investment Research.

Unlu Menkul does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

**Unlu Menkul Degerler A.S. ("Unlu Menkul**"), is authorized and regulated by the Capital Markets Board of Turkey ("CMB") and a member of Borsa Istanbul A.S. ("BIST"). Under CMB's legislation, the information, comments and recommendations contained in this report fall outside of the definition of investment advisory services. Investment advisory services are provided by authorized entities by taking into account the risk and return preferences of the concerned persons. The comments and recommendations contained in this report have general nature. These recommendations may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations

**Price Target:** TL10.60/share (12 month price target)
**Methods:** Target multiples
**Risks:** Adverse regulatory revisions, higher than expected interest rates, further occurrences of COVID-19 slowing CAPEX deployment

**Company Specific Disclosures:** Important Disclosures, including price charts are available for compendium reports and all Unlu Menkul covered companies by emailing UnluResearch@unluco.com or calling +90 212 367 3690 with your request. Unlu Menkul Research team may screen companies not covered by Unlu Menkul For important disclosures for these companies, please call + 90 212 367 3817 or e-mail UNSCompliance@unluco.com

## Important Regional Disclosures

This report covers Enerjisa Enerji A.S ("Enerjisa"). All other companies were used for illustrative purposes only. We are not commenting on the investment merit of the securities of these companies
Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.
The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TUPRS.IS) within the past 12 months.
As of the date of this report, Unlu Menkul does not act as a market maker or liquidity provider in the equities securities that are the subject of this report.
Principal is not guaranteed in the case of equities because equity prices are variable.
Commission is the commission rate, or the amount agreed with a customer when setting up an account or at any time after that.
Investors should carefully consider their own investment risk.
Investment results are the responsibility of the individual investor. Reports may not be reprinted without permission of Unlu Menkul

## Important Unlu Menkul Disclosures

### Potential Conflicts

| Company | Disclosure |
|---|---|
| Enerjisa Enerji A.S. | None |

A: The analyst, a team member, a member of the analyst's household or a team member's household serves as an officer, director or advisory board member of the subject company
B: The company beneficially owns 5% or more of the equity shares of Unlu Menkul as at date of this report
C: Unlu Menkul beneficially owns 1% or more of the equity shares of the company
D: The Company is a client of Unlu Menkul
E: Unlu Menkul has led managed or co-lead managed a public offering of securities in the Company or any related derivatives in the last 12 months
F: Unlu Menkul has received compensation for investment banking services from the company within the last 12 months
G: Unlu Menkul expects to receive, or intends to seek, compensation for investment banking services from the company during the next 3 months
H: Unlu Menkul has sent extracts of this research report to the subject company prior to publication for the purpose of verifying factual accuracy. Based on information provided by the subject company, factual changes have been made as a result.
I: Analyst or a member of their household holds long or short personal positions in a class of common equity securities of this company
J: Unlu Menkul is a market maker or liquidity provider in the financial instruments of the relevant issuer or any related derivatives
K: Unlu Menkul provided non-investment banking services, which may include Sales and Trading services, to the subject company within the past 12 months
L: Unlu Menkul has received compensation for products and services other than investment banking services from the subject company within the past 12 months
M: Unlu Menkul beneficially owns 5% or more of the equity shares of the Company

** Disclosures are correct as of date of this report*

For purposes CMB, in connection to the distribution of Unlu Menkul research, Unlu Menkul must disclose certain material conflicts of interest.

This report may include references to Unlu Menkul's research recommendations. For further information and for published Unlu Menkul reports in their entirety, please visit the website at www.unlumenkul.com

For Unlu Menkul disclosure information on other companies mentioned in this report, please visit the website at www.unlumenkul.com.

Disclaimers continue on next page.

## Disclaimer and Confidentiality Note

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Unlu Menkul to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to Unlu Menkul None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Unlu Menkul All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of Unlu Menkul or their subsidiaries.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Unlu Menkul may not has taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. Unlu Menkul will not treat recipients as their customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. Unlu Menkul does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

Unlu Menkul believe the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources Unlu Menkul believe are reliable, but Unlu Menkul makes no representations as to their accuracy or completeness. Additional information is available upon request. Unlu Menkul accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to Unlu Menkul This report is not to be relied upon in substitution for the exercise of independent judgment. Unlu Menkul may have issued, and may in the future issue, a trading call regarding this security. In addition, Unlu Menkul may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them, and Unlu Menkul is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. Unlu Menkul are involved in many businesses that relate to companies mentioned in this report.

Descriptions of any company or issuer or their securities or the markets or developments mentioned in the Research are not intended to be complete. The Research should not be regarded by recipients as a substitute for the exercise of their own judgment as the Research has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Unlu Menkul and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments may not be readily realizable since the market in the securities is illiquid or there is no secondary market for the investor's interest and therefore valuing the investment and identifying the risk to which the investor is exposed may be difficult to quantify. Investments in illiquid securities involve a high degree of risk and are suitable only for sophisticated investors who can tolerate such risk and do not require an investment easily and quickly converted into cash. Other risk factors affecting the price, value or income of an investment include but are not necessarily limited to political risks, economic risks, credit risks and market risks.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable, and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

Unlu Menkul maintains information barriers between their Research Analysts and the rest of their and their shareholders business divisions, more specifically the Investment Banking business. Unlu Menkul analysts', strategists' and economists' compensation is not linked to Investment Banking or Capital Markets transactions performed by Unlu Menkul or their shareholders. Facts and views presented in Unlu Menkul research has not been reviewed by, and may not reflect information known to, professionals in other Unlu Menkul business areas, including investment banking personnel.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of Unlu Menkul has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to Unlu Menkul's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report shall be at your own risk.

In jurisdictions where Unlu Menkul is not already registered or licensed to trade in securities, transactions will only be affected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. **US investors transacting in the securities featured or mentioned in this research report must deal directly through a U.S. Registered broker-dealer.**

**This document does not constitute or form part of, and should not be construed as, an offer or invitation to subscribe for or purchase any securities, and neither this document nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or commitment whatsoever. This document has not been published generally and has only been made available to institutional investors. Any decision to subscribe for or purchase securities in any offering must be made solely on the basis of the information contained in an offering memorandum (and supplements thereto) or any other offering document issued in connection with any proposed offering.**

Unlu Menkul does not form a fiduciary relationship or constitute advice and this Research is not and should not be construed as an offer or a solicitation of an offer of securities or related financial instruments or an invitation or inducement to engage in investment activity, and cannot be relied upon as a representation that any particular transaction necessarily could have been or can be effected at the stated price.

Please note that this report was originally prepared by Unlu Menkul for distribution to market professionals and institutional investor customers. Recipients who are not market professionals or institutional investor customers of Unlu Menkul should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

Unlu Menkul is a member of the BIST