

Sisecam

OUTPERFORM

Current price: TRY18.81

12-mo T.Price: TRY22.10

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1Q22 Earnings Comment

1Q22 Actual result vs. estimates				Share Price performance		Margins	
TRYmn	Actual	Consen.	Ak				
Revenue	16,974	16,499	16,804	1M	Rel to BIST 100	1Q21	Gross
EBITDA	4,456	4,067	4,359	3M	Nominal	2Q21	EBITDA
Margin	26.3%	24.6%	25.9%	YtD		3Q21	
Net Income	3,576	2,726	2,675			4Q21	
						1Q22	

1Q22 net income beat the estimates by a wide margin on deferred tax income

Quarterly financials: Sisecam (SISE) reported TRY3.58bn net income in 1Q22, compared to TRY1.35bn net income in 1Q21, which came significantly higher than our estimate of TRY2.68bn and the consensus estimate of TL2.73bn. Deviation in our estimate mainly resulted from TRY625mn deferred tax income. Operationally, the 1Q22 results also beat the consensus. 1Q22 revenues grew by 199% YoY to TRY16.97bn, in line with our estimate of TL16.80bn and RT consensus of TRY16.50bn. Organic growth was at 158% YoY adjusting with the consolidation impact of Ciner Resources LP. 1Q22 EBITDA at TRY4.46bn (+234% YoY & +87% QoQ) came higher than the consensus estimate (Ak Investment: TRY4.36bn, RT: Cons TRY4.06bn). Organic EBITDA growth was at 194% YoY with US operations contributing TRY533mn to consolidated EBITDA (full consolidation but 23% effective stake). Strong performance of the architectural glass and chemicals were the main driver of the solid EBITDA performance. Profitability of the glassware in 1Q22 also improved notably from high base of 1Q21. Net debt increased to USD876mn in 1Q22 from USD810mn in 4Q21 mainly due to the growing NWC requirement on strong growth and, ongoing investments. Net debt to EBITDA declined to 0.9x from 1.0x, a very comfortable level ahead of the heavy investment cycle (greenfield investments in flat glass, packing, and chemicals).

Comment & Rating: We expect to see a positive reaction to 1Q22 results thanks to the upbeat operating performance. We see growth dynamics to continue to be resilient in the short-run thanks to the very supportive pricing, tight supply and Sisecam's competitive asset base in Turkey. We maintain the "Outperform" rating with 12M TP at TRY22.1. Our estimates are currently unchanged but improving soda-ash prices (around +40% YoY 2022 in USD terms on average so far) and cost pass-through in all operating segments, flat glass in particular pose an upside risk to our current estimates.

Key Highlights

Architectural Glass: The segment reported 1Q22 revenues of TRY5.09bn, up by 192% YoY, benefiting from 14% volume growth and +183% pricing & product mix and currency impact. Flat glass prices grew by ~60% in EUR terms across all regions. Active CUR stood at 89% in 1Q22. The segment's 1Q22 EBITDA margin rose to 33.6% in 1Q22 from 26.4% in 1Q21.

Glass Packing: The segment's 1Q21 revenue grew by strong 120% YoY to TRY2.70bn mainly on a 9% increase in consolidated volumes and +111% pricing product mix and fx conversion impact. Turkey sales led the volume growth (+23% YoY) supported by pull forward demand ahead of the expected price adjustments and base impact. Non-Turkey also went up by 1% while exports from Turkey remained flat on strong domestic demand and limitations in shipments. 1Q22 EBITDA margin declined by 5.4ppt YoY to 20.5% on accelerating cost pressures (energy and shipping) and gradual price adjustments. There was slight 0.9ppt margin improvement on QoQ terms. We expect pricing to better catch up with costs and segment's EBITDA margin to improve to 23.1% in 2022.

Glassware: The glassware segment's 1Q22 revenue came in at TRY1.84bn, up by 132% YoY with +16% volume growth from relatively low base. Fully active HORECA demand in all operating regions supported sales. Domestic sales came down by 13%, while exports had almost doubled thanks to the full integration of SAP systems. Revenue share of international operations (incl. exports from Turkey) reached to 66% in 1Q22 from 60% in 1Q20. 1Q22 EBITDA margin of glassware operations was at 23.4% compared to 21.2% in 1Q21. Considerably higher EBITDA margin over the past two years in the segment points to a structural improvement in our view.

Chemicals: 1Q22 revenues (including intragroup sales & Ciner LP) increased by 315% YoY to TRY5.81 bn. Excluding the consolidation impact of U.S operations, 1Q22 revenues grew by %151 YoY to TRY3.53bn in 1Q22 supported by positive fx conversion, ii) +22% / +36% higher average soda ash / chromium chemicals prices. Synthetic soda ash volumes remained flat YoY while chromium chemicals sales came down by 10%. Natural soda ash operation in U.S contributed TRY2.3bn / TRY533mn to segments top-line / EBITDA in 1Q22. Note that the company fully consolidates Ciner Wyoming but has only 22.6% effective stake in the asset.

Key P&L items, TL mn	1Q22	1Q21	YoY Chg.	4Q21	QoQ chg.	2021	2020	YoY Chg.
Revenues	16,974	5,686	199%	11,045	54%	32,058	21,341	50%
Gross Profit	6,853	1,936	254%	3,748	83%	11,180	6,661	68%
Gross Margin	40.4%	34.0%	633 bps	33.9%	644 bps	34.9%	31.2%	366 bps
EBITDA	4,456	1,334	234%	2,387	87%	7,562	4,405	72%
EBITDA Margin	26.3%	23.5%	280 bps	21.6%	464 bps	23.6%	20.6%	295 bps
Net Profit	3,576	1,348	165%	5,038	-29%	9,133	2,138	327%

Key B/S items, TL mn	1Q22	4Q21	3Q21	2Q21	1Q21
Net Debt	14,012	11,575	3,751	4,564	5,164
FX Position	6,711	5,863	9,022	7,528	7,475
Operational Cash Flow	-153	5	1,247	693	498
Free Cash Flow	-737	-6,159	1,000	1,369	241

Segmental Rev., TLmn	1Q22	1Q21	YoY Ch.	4Q21	QoQ chg.	2021	2020	YoY Chg.
Architectural Glass	5,085	1,741	192%	3,483	46%	9,778	5,284	85%
Auto Glass	1,254	747	68%	1,025	22%	3,252	2,382	37%
Glassware	1,844	794	132%	1,716	7%	4,878	3,205	52%
Glass packaging	2,700	1,225	120%	2,414	12%	7,565	5,467	38%
Chemicals	5,819	1,403	315%	2,569	127%	7,612	5,316	43%
Total	16,974	5,686	199%	11,045	54%	32,058	21,341	50%

Segmental EBITDA, TLmn	1Q22	1Q21	YoY Ch.	4Q21	QoQ chg.	2021	2020	YoY Chg.
Architectural Glass	1709	460	272%	1226	39%	2955	884	287%
EBITDA margin, %	33.6%	26.4%		35.2%		30.2%	16.7%	
Auto Glass	8	24	-65%	-71	n.m	7	100	287%
EBITDA margin, %	0.7%	3.2%		-6.9%		0.2%	4.2%	
Glassware	431	168	157%	264	63%	839	405	246%
EBITDA margin, %	23.4%	21.2%		15.4%		17.2%	12.6%	
Glass packaging	554	318	74%	472	17%	1,669	1474	15%
EBITDA margin, %	20.5%	25.9%		19.6%		22.1%	27.0%	
Chemicals	1478	379	290%	356	315%	1,720	1419	31%
EBITDA margin, %	25.4%	27.0%		13.9%		22.6%	26.7%	
Total	4,456	1,334	234%	2387	7%	5,175	2,860	81%

Revenues are based on gross figures before the eliminations & EBITDA excludes other income/expense

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as a notional reference price and must be discounted by the stock's cost of equity to calculate the current fair price estimate.

A key element of our rating system is the benchmarking of the 12-month expected return against the cost of equity. We apply a required rate of return for each stock, calculated on the basis of our assumed risk-free rate and equity risk premium. A stock is normally assigned an Outperform rating if the implied return over the next 12 months exceeds the required rate of return (cost of equity) by at least 10 percentage points for our larger-cap stock coverage, or by 15 percentage points for the small-cap group. As the average potential upside of the stocks in our coverage may be considerably higher or lower than the average cost of equity, we also filter stocks according to their potential upside with respect to other stocks under coverage, with the practical aim of attaching an Outperform rating to the top group (generally 30-50% of the companies under our coverage), a Neutral rating for the next 40-50% and an Underperform rating to the lowest group (no less than 10%, and typically between 10-20% of the coverage group). The expected returns on some stocks may fall outside the range of the applicable rating category, due to movements in market prices and other short-term volatility or trading patterns, or analyst discretion. While temporary deviations from the specified ranges are permitted, they would subsequently become subject to review. Note too that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

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