

Turkey– Systems Integration and Technology

Kontrolmatik

Price target revised to 320 TL incorporating the new energy storage investment

Turkey's first large-scale energy storage license was given to Progresiva Energy, a subsidiary of Kontrolmatik. According to the statement made by the company to the Public Disclosure Platform, Progresiva Energy Investments, one of the subsidiaries of Kontrolmatik, has been granted a Supply License by the Energy Market Regulatory Authority (EMRA) to trade electrical energy and/or capacity for 20 years. The Lithium-Ion Energy Storage Facility to be established in Istanbul Silivri will have 250MW connection power and 1 GWh total energy storage capacity. The storage license granted to the company is Turkey's first large-scale energy storage license, and when the facility is put into operation, it will also be among the highest capacity energy storage facilities in the world. The facility will use Li-Ion storage units and systems.

Energy security has become very important with rising geopolitical risks. In addition to the energy supply problem experienced in Turkey in the past weeks, the rising regional geopolitical risks have once again confirmed the importance of establishing energy storage systems as soon as possible. Statements by relevant government agencies also confirm that necessary steps will be taken immediately for energy supply security. When the storage facility to be established by Progresiva is fully operational, it will be able to store approximately 15% of the installed capacity of Thrace and Istanbul regions (including the Anatolian side). Considering that approximately 60% (4.2 GW) of the installed capacity (6.6 GW) of the Thrace and Istanbul regions is renewable energy, Progresiva will be able to store approximately 25% of this capacity. While Thrace and Istanbul regions had 6.5% of Turkey's installed capacity by the end of 2021, they accounted for approximately 20% of the annual electricity consumption in Turkey (Table 2). Therefore, Progresiva will help substantially improve the region's energy security, in our view.

We expect Kontrolmatik to invest approximately 250 mn USD for energy storage. According to our calculations, current high-capacity (utility scale) Li-Ion battery prices and other peripheral investment required for commissioning the facility are around 230-260 mn USD for a 1GW storage facility. In other words, an investment of 230-260 thousand USD/MW is required for a storage facility of this size (Table 1). Company management aims to commission half of this capacity in 2023 and the rest in 2024. Assuming that the company will make this investment with a debt/equity ratio of 75%/25%, the required financing (~180 mn USD) will likely be secured from international development banks that provide long-term and low-interest resources for green and renewable energy investments.

We expect Progresiva to generate approximately USD30 mn of EBITDA by the end of 2024 at full capacity. Progresiva's revenues will mainly consist of the following: 1) electricity storage (Primary and Secondary Frequency Control) on behalf of TEİAŞ (The State Grid Operator), 2) balancing (electricity producers), 3) electricity trading arbitrage (electricity producers) and 4) tertiary frequency control (electricity producers). We anticipate that approximately half of our expected total revenues will consist of frequency control and balancing items while the remainder will consist of trading revenues (Table 1). A significant part of the Li-Ion batteries to be used in the facility will be supplied from Pomega, a subsidiary of Kontrolmatik, which has already started investments and is planned to start production at the end of the year.

We are raising our target price to 320 TL for Kontrolmatik shares. As we stated in our previous report, the energy storage business was not included in our valuation model (Table 3). When we include the energy storage business in our model, the company will secure the necessary financing within this year, the 2023T and 2024T EBITDA of the company increases to 1.7 billion TL and 2.3 billion TL, respectively. As can be seen in the valuation model table, we do not make any changes in the valuation of other business lines of the company compared to the previous report. Therefore, the increase in the target market value we foresee for the company drives solely from the inclusion of the energy storage business in the valuation model. We estimate the fair market value of the energy storage business as TL 3.1 billion corresponding to 8.0x 23E EBITDA and 5.0x 24E EBITDA.

We believe that the company's new business lines (Li-Ion battery, energy storage and IoT) will lead to a very rapid growth in the company's revenues and EBITDA in the coming period. Therefore, we think that the value created by the new business lines is still not fully reflected in the share price despite the sharp increase in the Kontrolmatik share price over the past one month.

Kontrolmatik Financial Forecasts Summary

	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Total Sales (TL bn)	187	201	612	2,152	4,932	6,467	7,988	9,650
Total Sales (USD mn)	33	29	70	148	256	305	343	377
EBITDA (TL bn)	28	27	114	515	1,704	2,361	2,936	3,571
EBITDA (USD mn)	5	4	13	36	89	112	126	139
Net Profit (TL bn)	28	24	131	291	1,018	1,492	1,869	2,447
Net Profit (USD mn)	5	3	15	20	53	70	80	96
EBITDA Margin (%)	14.8	13.3	18.6	23.9	34.5	36.5	36.8	37.0

Source: Company data, INFO Research estimates

BUY

Target Price: TL 320

Previous Target Price: TL 220

Company Data

Ticker	KONTR
Recommendation	BUY
Target Price (TL)	320
Target Return (%)	%121
Current Price (TL)	144.8
52w range (TL)	50-145
No. of shares (mn)	38.1
Floata (%)	%24
MCAP (TL mn)	5,511
MCAP (USD mn)	385
Equity (TL mn)	198
Net DEbt (TL mn) (2021/12)	-171
3m ADTV (USD mn)	10.6
3m ADTV/MCAP (%)	%12
2021E Dividend Yield (%)	%0.3

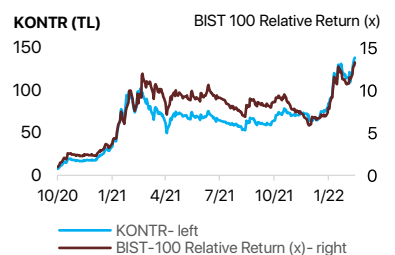
as of close of 04-03-2022

Valuation Multiples

	Current	22E	23E
P/E (x)	40.2	18.1	5.2
EV/EBITDA (x)	46.8	10.4	3.1
P/B (x)	18.3	9.2	2.8
P/Sales (x)	8.6	2.4	1.1

Source: INFO Research estimates

Price Performance



INFO Research Team

Research: +90 (212) 700-3769
research@infoyatirim.com.tr

Institutional Sales: +90 (212) 700-3770
sales@infoyatirim.com.tr

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Table 1. Progressiva Financial Forecast Model

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Installed Capacity (MWh)		500	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Overnight Storage (MWh)		500	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Arbitrage Amount (MW/day)		500	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
1 Arbitrage Revenue (USD mn)		6.6	14.3	15.4	16.6	17.8	18.8	19.8	20.9	22.1	23.3	24.5	25.8
Unit Electricity Sales Price (USD/MWh)		62.3	65.5	68.7	72.2	75.8	78.8	82.0	85.2	88.6	92.2	95.9	99.7
Unit Electricity Cost (USD/MWh)		26.0	26.2	26.5	26.8	27.0	27.3	27.6	27.8	28.1	28.4	28.7	29.0
2 Frequency Control and Balancing Revenues (USD mn)		7.5	15.5	15.9	16.4	16.9	17.4	17.9	18.4	19.0	19.6	20.2	20.8
Frequency Control and Balancing Revenues (000 USD/MWh)		15.0	15.5	15.9	16.4	16.9	17.4	17.9	18.4	19.0	19.6	20.2	20.8
1+2 Total Revenues (USD mn)		14.1	29.8	31.3	33.0	34.7	36.2	37.8	39.4	41.1	42.9	44.7	46.6
COGS (USD mn)		4.7	9.6	9.7	9.8	9.9	10.0	10.1	10.2	10.3	10.4	10.5	10.6
Gross Profit (USD mn)	0.0	9.4	20.2	21.7	23.2	24.8	26.2	27.7	29.2	30.8	32.5	34.2	36.0
Gross profit Margin (%)		66	68	69	70	72	72	73	74	75	76	77	77
Opex (USD mn)	1.0	1.3	2.7	2.8	3.0	3.1	3.1	3.2	3.3	3.5	3.6	3.8	4.0
as % of revenues		9.0	9.0	9.0	9.0	9.0	8.5	8.5	8.5	8.5	8.5	8.5	8.5
EBIT (USD mn)	-1.0	8.1	17.5	18.8	20.2	21.7	23.1	24.5	25.9	27.3	28.8	30.4	32.0
Depreciation (USD mn)	1.3	12.5	12.5	12.5	12.5	12.6	12.6	12.6	12.6	12.7	12.7	12.7	12.8
EBITDA (USD mn)	0.3	20.6	30.0	31.4	32.8	34.2	35.7	37.1	38.5	40.0	41.5	43.1	44.8
EBITDA (USD 000/MWh)		41.2	30.0	31.4	32.8	34.2	35.7	37.1	38.5	40.0	41.5	43.1	44.8
CAPEX (USD mn)	25.0	225.0	0.3	0.5	0.8	1.0	1.0	1.5	2.5	3.0	4.0	4.5	5.0
Initial CAPEX (USD mn)	25	225											
Equity (USD mn)	6	56											
LT Debt (USD mn)	19	169											
Debt Service (USD mn)	0	0	-2	-24	-24	-24	-24	-24	-24	-24	-24	-24	-24
Cumulative Debt Service (USD mn)	0	0	-2	-25	-49	-72	-96	-120	-143	-167	-191	-214	-238
													238
													63
													300
													8.4

Source: Company data, INFO Research Estimates

Table 2. Trakya ve Istanbul Region Installed Capacity, Production and Consumption

	Current Installed Capacity (MW)	% in total	Electricity Production (GWh)	% in total	Electricity Consumption (GWh)
Istanbul	3,187	3.2	7,339	2.5	38,487
European side	2,550	2.5	5,871	2.0	25,656
Asian side	637	0.6	1,468	0.5	12,831
Tekirdag	1,491	1.5	2,898	1.0	7,158
Edirne	150	0.2	536	0.2	2,077
Kirklareli	1,890	1.9	6,661	2.3	1,027
Trakya Region + Istanbul	6,718	6.7	24,773	8.4	48,749
Turkey Total	100,000		294,084		233,436

Source: EPDK, Energy Atlas, INFO Research Estimates

Table 3. Kontrolmatik The SOTP Valuation Summary

	EV				23E		Fair EV (TL mn)	Fair EV/EBITDA (x)
	DCF (TL)	Weight (%)	Peers (TL)	EV/EBITDA (x)	Weight (%)	Fair EV		
Systems Integration	3,047	80	11,890	12.3	20	4,816	5.0	
Li-Ion battery production	2,202	80	4,320	14.6	20	2,626	8.9	
IoT	2,917	100	-	-	-	2,917	14.8	
Energy Storage	3,168	100	-	-	-	3,168	8.0	
Total	11,334					13,526	9.3	
				Net Debt (TL mn) (2022E)		1,325		
				Target MCAP (TL mn)		12,201		
				Target Price (TL)		320		
				Target Return (%)		121		

Source: EquityRT, Factset, INFO Research Estimates

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I, Serhan Gök, hereby certify that the views expressed in this research report accurately reflect the personal views of the INFO Research team, regarding the securities and issuers referred to therein and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

INFO Research Team

Serhan Gök– Head of INFO Research Team

Çağlar Toros– Analyst

Kutay Ağırbaş– Junior Analyst

Rating Methodology:

We employ Discounted Cash Flow (DCF) model and peer multiple analysis to derive at our target prices. Our recommendation methodology is as follows:

Buy: If Target Price is 5 percentage points higher than the estimated Cost of Equity

Hold: If Target Price is within -5 and 5 percentage points of the estimated Cost of Equity

Sell: If Target Price is lower than 5 percentage points of the estimated Cost of Equity

Please note that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

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