

HEKTAŞ

Not Rated

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Focus on deleveraging in 2024...

Hektaş operates in plant protection, plant nutrition, seed and animal healthcare products businesses. Hektaş expanded its plant protection operations in addition to entering into seed, veterinary medicines and pet mama businesses via 5 acquisitions and 1 new establishment in 2017-2022 period, totalling USD51mn.

Earnings temporarily deteriorated after an exceptionally strong 2022... Hektaş was at a relatively advantaged position with high level of inventory before 2023, in an environment of surging input prices. With an uptrend in product prices, dealers were also inclined to accumulate inventory. Thus, operating environment was favourable in 2021-2022 period. Hektaş could increase its EBITDA from USD37mn in 2020 to USD62mn in 2021 and USD101mn in 2022. However, operational cash flow generation did not improve in line with EBITDA growth parallel to increasing trade receivable days with strong competition in the sector. Falling urea prices starting from 4Q22, change in climate conditions with lower/delayed rainfall and the devastating earthquakes in South Eastern Anatolia in Feb-23 further pressured demand since c20% of the sales were into this region. Accordingly, EBITDA of Hektaş declined by 66% y/y to USD30mn in 9M23.

Focus on deleveraging in 2024... Hektaş' short-term financial debt stood at TRY11.7bn vs. a gross cash of TRY4.5bn at end-3Q23. The company's focus will be on debt reduction and extending maturity of financial debt in 2024 via: i) improvement in working capital, ii) IPO of Ferbis Tarım and iii) potential convertible bond issue.

Hektaş to reap the benefits from investments in 2025... 2024 is expected to be a period of deleveraging and slight recovery in operating performance with partial impact from seed business. However, the company expects to record a major improvement in financial performance in 2025 thanks to full contribution of high-margin seed business.

Hektaş is currently trading at rich multiples... In 2021 and 2022, Hektaş shares outperformed the BIST100 index by 121% and 145%, respectively. However, the stock underperformed the BIST100 index by 58% YTD. Hektaş' 5Y average P/E and EV/EBITDA multiples stand at 20.4x and 14.2x, respectively. Hektaş' trailing P/E and EV/EBITDA multiples currently stand at 223x and 72.8x, respectively.

Bloomberg Ticker	HEKTS TI
Recommendation	Not Rated
Target Price, TRY	n.a.
Current Price, TRY	23.22
Upside	n.a.
Free Float	41%
Mcap, TRYmn	58,747
EV, TRYmn	67,054

Financial Data	2020	2021	2022	9M23	T12M
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Summary IFRS Financials					
Revenue, TRYmn	1,014	2,021	5,237	5,256	
EBITDA, TRYmn	263	551	1,682	922	
Net Income, TRYmn	180	319	802	264	

Indebtedness					
Net Debt, TRYmn	973	2,164	5,764	8,308	
Net Debt/EBITDA	3.7	3.9	3.4	9.0	

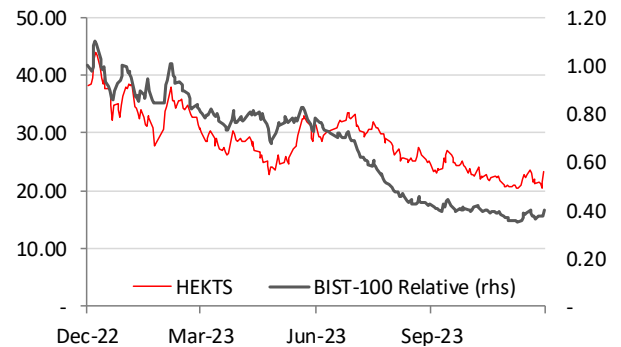
Profitability					
EBITDA Margin	25.9%	27.3%	32.1%	17.5%	
Net Margin	17.8%	15.8%	15.3%	5.0%	
Dividend Yield	-	-	n.a.	-	

Growth					
Revenue, y/y	38.4%	99.3%	159.2%	12.9%	
EBITDA, y/y	2.8%	109.7%	205.4%	-42.3%	
Net Income, y/y	24.0%	76.9%	151.2%	-64.9%	

Valuation Data	2020	2021	2022	9M23	TTM
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P/E	15.6	23.6	48.9	222.8	
EV/EBITDA	14.4	17.6	26.7	72.7	
EV/Sales	3.7	4.8	8.6	12.8	

Stock Data	1W	1M	3M	YTD
Nominal Return	10.0%	12.0%	-5.8%	-38.3%
BIST-100 Relative	8.9%	7.4%	-6.1%	-57.5%
ADT, TRYmn	1,018	1,102	1,287	1,059



Market data of December 15, 2023

Income Statement (TRY mn)	2020	2021	2022	9M23
Net Sales	1,014	2,021	5,237	4,079
Gross Profit	351	708	2,101	1,339
Operating Expense	-116	-210	-518	-808
EBIT	235	498	1,582	531
EBITDA	263	551	1,682	672
Non-operating Income / (Expense)	-4	-81	-163	-207
Profit / (Loss) from Subsidiaries	0	0	0	0
Net Investment Income / (Expense)	2	2	7	1,127
Financial Income / (Expense)	-82	-98	-881	-1,435
Profit before Tax	151	321	545	16
Tax Income / (Expense)	30	-8	244	48
Minority Interest	0	-6	-13	-13
Net Profit	180	319	802	77
EPS	0.79	0.37	0.32	0.03
DPS	0.01	0.00	0.00	0.00

Cashflow (TRYmn)	2020	2021	2022	9M23
EBIT	235	498	1,582	531
Depreciation	27	53	100	141
Change in Net Working Capital (-)	-426	-1,011	-3,975	-278
Taxes Paid	1	12	-42	284
Capex	-218	-635	-1,071	-607
Free Cash Flow	-380	-1,083	-3,406	70
<i>Free Cash Flow Margin</i>	<i>-37.5%</i>	<i>-53.6%</i>	<i>-65.0%</i>	<i>1.7%</i>
Dividends Paid	-1	-1	0	0
Increase in net cash (Decrease)	-556	-1,191	-3,600	-2,544

Growth	2020	2021	2022	9M23
Net Sales	38.4%	99.3%	159.2%	-22.1%
EBIT	-2.6%	111.6%	217.6%	-66.4%
EBITDA	2.8%	109.7%	205.4%	-60.1%
Net Profit	24.0%	76.9%	151.2%	-90.4%

Profitability	2020	2021	2022	9M23
Gross Margin	34.7%	35.1%	40.1%	32.8%
Opex Margin	-11.4%	-10.4%	-9.9%	-19.8%
EBIT Margin	23.2%	24.7%	30.2%	13.0%
EBITDA Margin	25.9%	27.3%	32.1%	16.5%
Net Profit Margin	17.8%	15.8%	15.3%	1.9%
ROE	22.9%	22.3%	23.0%	2.1%
ROIC	10.2%	10.7%	11.7%	2.6%

Source: Rasyonet

Balance Sheet (TRY mn)	2020	2021	2022	9M23
Current Assets	1,477	3,283	8,987	13,599
Cash and Cash Equivalents	79	107	1,532	4,522
Short-Term Trade Receivables	752	1,655	4,088	4,062
Inventories	418	1,149	2,897	2,910
Other Current Assets	228	372	470	2,106
Long Term Assets	701	1,448	3,239	5,758
Tangible Fixed Assets	425	1,044	2,179	2,927
Intangible Fixed Assets	213	295	357	1,501
Right of Use Assets	28	43	119	103
Other Long-Term Assets	36	66	584	1,227
Total Assets	2,178	4,731	12,226	19,357
Short Term Liabilities	1,165	3,113	8,364	14,371
Short-Term Financial Loans	894	2,210	7,077	11,664
Short-Term Lease Liabilities	0	0	0	0
Short-Term Trade Payables	222	817	957	1,790
Other Short-Term Liabilities	49	86	330	917
Long Term Liabilities	209	171	373	1,371
Long-Term Financial Loans	157	61	218	1,165
Long-Term Lease Liabilities	0	0	0	0
Other Long-Term Liabilities	51	110	155	206
Shareholders' Equity	804	1,447	3,489	3,615
Parent Shareholders Capital	788	1,430	3,481	3,621
Total Paid-in Capital	228	860	2,530	2,530
Reserves and Other Items	147	77	49	133
Retained Earnings / (Acc. Losses)	235	173	100	880
Current Year Income / (Loss)	179	319	802	77
Minority Interest	15	17	7	-5
Total Liability and Equity	2,178	4,731	12,226	19,357

Indebtness	2020	2021	2022	9M23
Net Debt (Cash)	973	2,164	5,764	8,308
Net Debt / EBITDA	3.7	3.9	3.4	9.1

Valuation Metrics	2020	2021	2022	9M23
P / E	15.6	23.6	48.7	222.8
EV / EBITDA	14.6	17.8	26.7	72.8
EV / Sales	3.8	4.8	8.6	12.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Hektaş operates in plant protection, plant nutrition, seed and animal health products businesses. Hektaş was initially established to manufacture and sell pharmaceuticals in 1956. However, the company later shifted focus on to agrochemicals in 1962. OYAK became a shareholder in Hektaş in 1963 and later became the majority shareholder with 53.8% share in 1981. Currently, OYAK owns 55.37% of Hektaş shares while the rest is free float. Today, Hektaş is the market leader in plant protection segment while the company also has strategic partnerships with global plant protection and plant nutrition companies.

Heavy investment cycle in 2017-2023 period... In 2017, Hektaş acquired Ferbis Tarım (previously “FNC”), which operates in production and marketing of plant protection products targeting lower and medium market segments, for USD3.6mn. In 2019, Areo Tohum (previously “Akça Tohumculuk”), operating in seed breeding and production was acquired for USD4.7mn. In 2020, Sunset, operating in plant protection business was acquired for USD9.6mn, targeting export markets. Hektas entered into veterinary medicines business with the acquisition of Arma İlaç for TRY92mn (USD10.8mn) in 2021. The company expanded operations in seed business with the acquisition of 51% stake in Agriventis Australia for TRY28mn (USD2mn) in 2022. Moreover, Hektaş will enter into Uzbekistan market with Hektaş Asia, which was established with a capital of USD20mn in 2023. Accordingly, we calculate that Hektaş spent about USD51mn for acquisitions in 2017-2023 period. The company gradually raised its paid in capital from TRY76mn to TRY2,530mn in this period.

Acquisitions of Hektaş in 2017-2023 period

Company	Date	% share	TRYmn	USDmn	USD/TRY	Busines Line
Ferbis	Nov-17	100%	14.1	3.6	3.951	Plant protection products targeting lower and medium market segments.
Areo Tohum	Feb-19	100%	25.2	4.7	5.317	Seed breeding and production
Sunset	Jun-20	100%	65.0	9.6	6.783	Plant protection products targeting export markets
Arma	Jul-21	100%	92.0	10.8	8.545	Veterinary medicines
Agriventis Technologies	Jan-22	51%	28.0	2.0	13.721	Operating in seeds business line
Hektaş Asia	2022-2023	100%		20.0		Establishment of an export-oriented company for plant protection and fertilizer.

Source: Hektaş, AK Investment

Rising net debt position... Heavy investment cycle coupled with deterioration in working capital conditions due to increasing trade receivables led to a rise in net debt position from USD17mn at end-2017 to USD307mn at end-3Q23. Net debt/EBITDA increased from 1.0x in 2017 to 9.1x at end-3Q23.

Earnings temporarily deteriorated after an exceptionally strong 2022... There was a sharp increase in input prices following the pandemic while Hektaş was at a relatively advantaged position with high level of inventory. With an uptrend in product prices, dealers were also inclined to accumulate inventory. Thus, operating environment was favourable in 2021-2022 period. Hektaş could increase its EBITDA from USD37mn in 2020 to USD62mn in 2021 and USD101mn in 2022. However, operational cash flow generation did not improve in line with EBITDA growth parallel to increasing trade receivable days

with strong competition in the sector. Receivable days in plant protection product increased up to 280 days vs. a normalized level of 180 days while receivable days in fertilizer products increased to 200 days vs. a normalized level of 90 days. Falling urea prices starting from 4Q22 resulted in growing tendency by dealers to deplete inventory. Change in climate conditions with lower/shifted rainfall since 4Q22 also had an impact on demand from farmers. Finally, the devastating earthquakes in South Eastern Anatolia in Feb-23 further pressured demand since around 20% of the sales were into this region. Accordingly, EBITDA of Hektaş declined by 66% y/y to USD30mn in 9M23.

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Outperform. An outperform rating conveys an expectation that the stock will outperform the BIST-100 Index (XU100) within the next 6 to 12 months.

Neutral. A neutral rating would convey an expectation that the stock will perform broadly in line with the BIST-100 (XU100) Total Return Index.

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Not Rated (N/R). A not rated rating is assigned when the analyst does not have adequate conviction about the stock's total return relative to the BIST-100 (XU100) Total Return Index or to the average total return of the analyst's industry coverage universe, on a risk-adjusted basis, over the next 6 to 12 months.

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