

We like Karel Elektronik due to its ventures in high-growth potential sectors, strong contributions in terms of revenue and profitability from the Daiichi acquisition, the partnership with Turkcell, growing businesses on the Nokia front, its robust R&D and innovative structure. **We initiate our recommendation for KAREL with a target price of 50.20 TL and an Outperform (OP) rating.** Our target price indicates a potential return of 59.0%. KAREL is trading at 3.27x 2024E EV/EBITDA, 5.45x Price/Book, and 0.84x Price/Sales ratios.

Karel Elektronik is an electronic company engaged in the production of electronic cards, regional solution partnerships with telecom companies, and activities in the defense industry, automotive, and telecom business sectors.

The company's revenue distribution consists of 33% from corporate projects, 30% from automotive, and 27% from electronic card production.

Karel's 2023YE revenue guidance is USD330 mln, with an anticipated EBITDA margin of 18%-19%. For 2024YE we forecast USD400 mln revenue and we expect an improvement in the EBITDA margin to 20% range.

The company, 40% of whose shares were acquired by Dogan Holding in 2022, made a significant move in the automotive sector with the acquisition of Daiichi. Daiichi is active in the production of intelligent screens, infotainment systems, and various driver support control equipment. Karel is involved in the production and sale of control equipment for TOGG. The start of TOGG's mass production will support revenue figures in the coming years. We anticipate that the share of the more profitable automotive segment in total revenues will gradually increase in the coming period.

Although there has been an increase in short-term debt due to the Daiichi acquisition, the company's operations, profitability, and its partnership exhibit a strong outlook regarding debt repayment capacity. We expect the company to continue its revenue and profitability growth in the coming period with the positive impact of Daiichi.

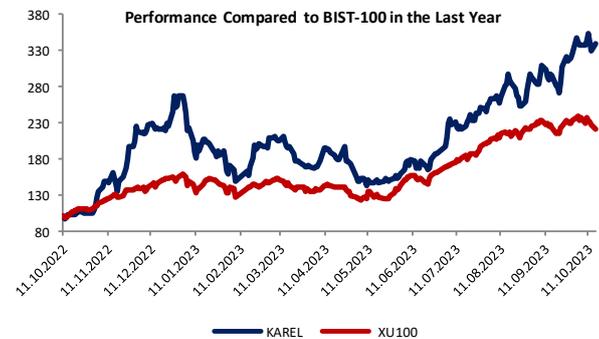
The Turkcell Regional Solution Partnership contract, which began in the corporate projects field in 2019, has been updated to extend its validity until the end of 2025 by adding new regions. The estimated revenue from this contract is projected to be approximately TRY6 bln, subject to price adjustments in every six months. We will monitor Turk Telekom's upcoming partnership-related tender process that may be a catalyst for Karel; though we have not included anything out of this potential business.

The gross profit margin in the electronic card production sector declined to 5% due to weaker sales in the white goods industry in the last one year. Modernization and organizational development projects have been initiated in the electronic card facility, with a target of achieving a 35% increase in efficiency and a 30% increase in capacity by 2024YE. With these new investments, we anticipate a strong recovery in profit margin in this segment. This investment will be financed through a 100% capital increase that is currently in the approval process by the Capital Markets Board.

KAREL

Outperform

| | | | |
|------------------------------|----------------|------------|------------|
| Closing Price (TL) | 31,58 | | |
| Target Price (TL) | 50,20 | | |
| Upside | 59,0% | | |
| 52 Week Range (TL) | 9,37 / 33,74 | | |
| Beta (L1Y) | 0,88 | | |
| BIST-100 | 7.934,56 | | |
| KAREL | (Mn TL) | | |
| Market Cap. | 12.725 | | |
| Capital | 403 | | |
| Free Float | 29,00% | | |
| ADTV (3 month) | 110,6 | | |
| Price Performance (%) | L1M | L3M | L1Y |
| KAREL | 15,00 | 53,00 | 233,26 |
| BIST-100 | -0,34 | 23,25 | 118,77 |
| BIST-100 Relative | 15,40 | 24,14 | 52,34 |



| FINANCIAL RATIOS | 2023/12E | 2024/12E | 2025/12E |
|--------------------------|-----------------|-----------------|-----------------|
| Revenues (Mn TL) | 8.951 | 15.216 | 21.302 |
| EBITDA (Mn TL) | 1.637 | 3.063 | 4.743 |
| EBITDA Margin (%) | 18,29% | 20,13% | 22,26% |
| Net Profit (Mn TL) | 258 | 1.313 | 2.629 |
| Net Profit Margin (%) | 2,88% | 8,63% | 12,34% |
| VALUATION RATIOS | 2023/12E | 2024/12E | 2025/12E |
| P/E | 49,30 | 9,69 | 4,84 |
| P/B | 12,46 | 5,45 | 2,56 |
| EV/EBITDA | 6,12 | 3,27 | 2,11 |
| P/EBITDA | 7,77 | 4,15 | 2,68 |
| Price/Sales | 1,42 | 0,84 | 0,60 |
| HISTORICAL RATIOS | S1Y | S2Y | S3Y |
| P/E | 486,89 | 275,69 | 188,41 |
| P/B | 10,30 | 7,18 | 5,84 |
| EV/EBITDA | 13,85 | 11,42 | 10,50 |
| P/EBITDA | 10,47 | 8,47 | 7,97 |
| Price/Sales | 1,94 | 1,68 | 1,60 |

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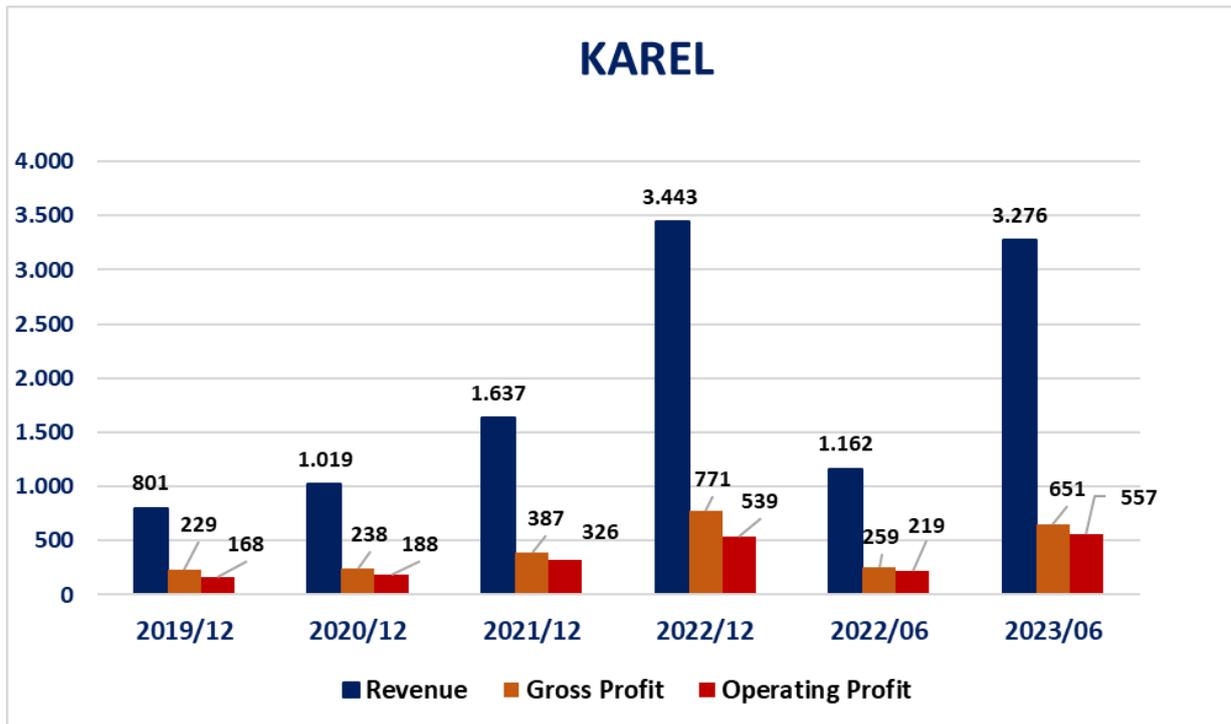
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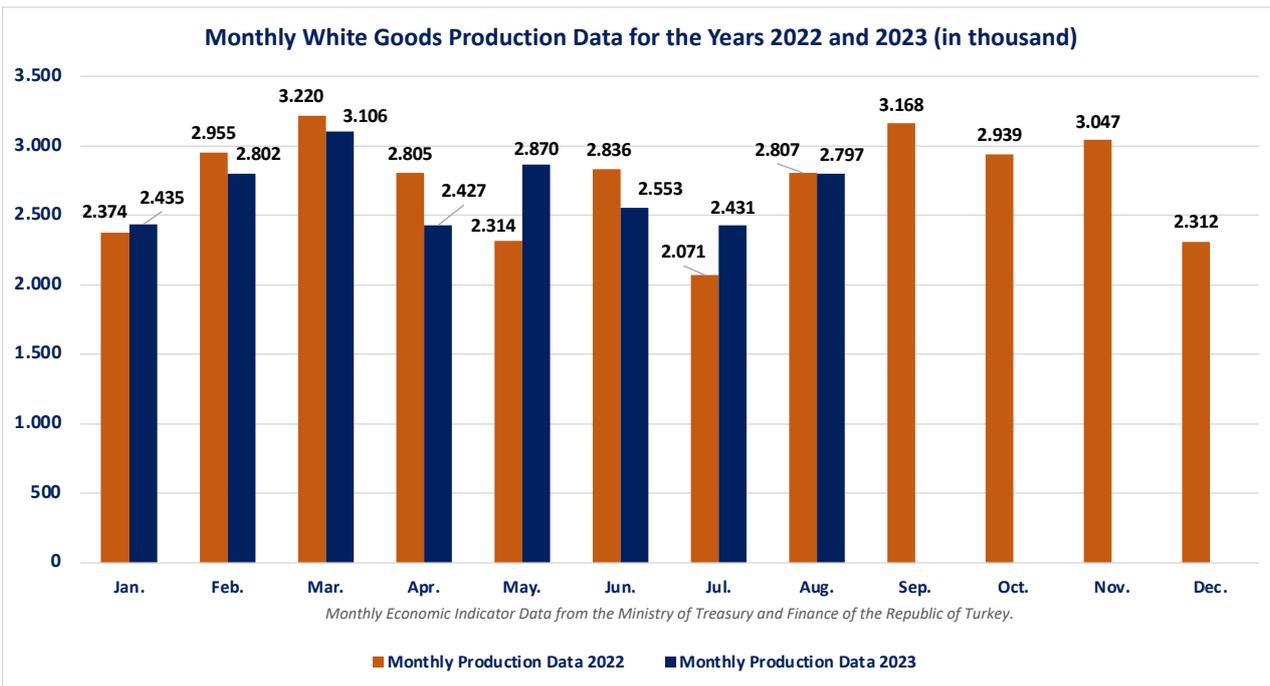
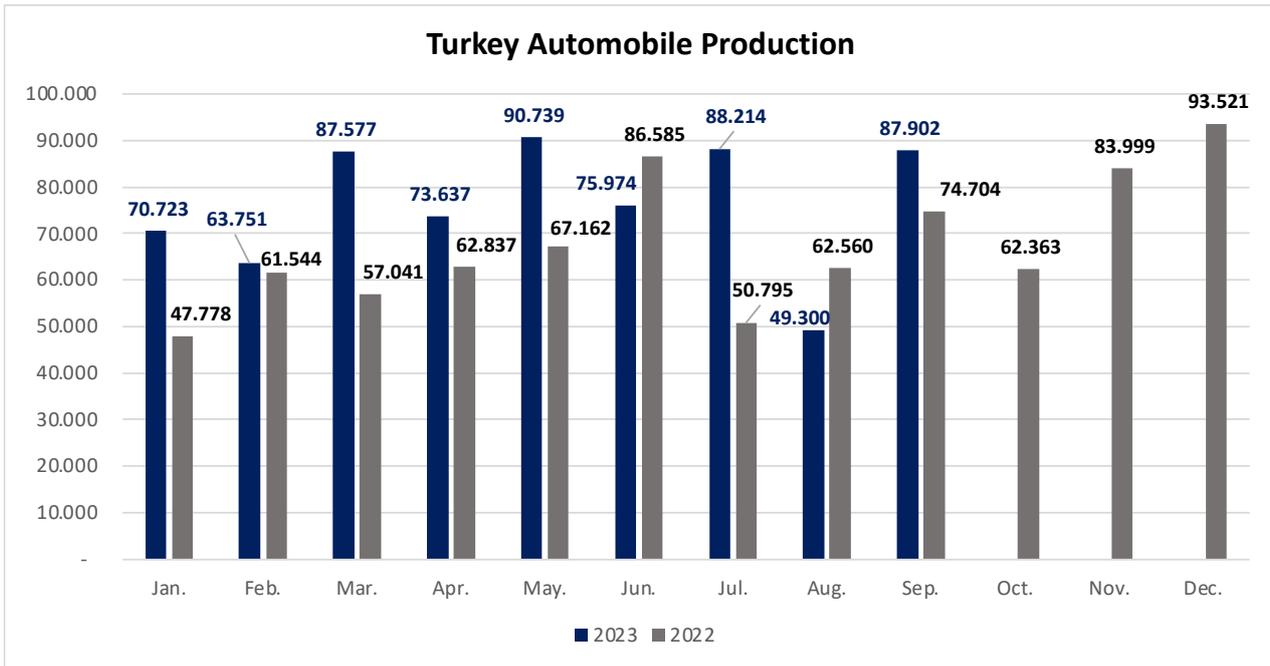
Karel Summary

| Revenue (Mn TL) | 2020/12 | 2021/12 | 2022/12 | H122 | H123 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Telecom | 110 | 180 | 350 | 102 | 187 |
| Sectoral Revenue Share | 11% | 11% | 10% | 9% | 6% |
| Electronic Card Production | 356 | 579 | 1.386 | 582 | 890 |
| Sectoral Revenue Share | 35% | 35% | 40% | 50% | 27% |
| Defense | 201 | 229 | 168 | 79 | 133 |
| Sectoral Revenue Share | 20% | 14% | 5% | 7% | 4% |
| Corporate Projects | 352 | 649 | 951 | 399 | 1.081 |
| Sectoral Revenue Share | 35% | 40% | 28% | 34% | 33% |
| Automotive | - | - | 588 | - | 984 |
| Sectoral Revenue Share | - | - | 17% | - | 30% |
| Toplam | 1.018 | 1.637 | 3.443 | 1.162 | 3.276 |

| Gross Profit and Gross Margin by Revenue Segments | | 2020/12 | 2021/12 | 2022/12 | H122 | H123 |
|---|----------------------|--------------|--------------|--------------|--------------|--------------|
| Telecom | Gross Profit (Mn TL) | 52 | 83 | 191 | 45 | 84 |
| | Gross Margin | 47,2% | 46,3% | 54,5% | 44,1% | 44,9% |
| Electronic Card Production | Gross Profit (Mn TL) | 55 | 57 | 185 | 83 | 46 |
| | Gross Margin | 15,6% | 9,9% | 13,3% | 14,2% | 5,2% |
| Defense | Gross Profit (Mn TL) | 78 | 101 | 99 | 53 | 61 |
| | Gross Margin | 38,7% | 44,3% | 59,2% | 67,5% | 45,7% |
| Corporate Projects | Gross Profit (Mn TL) | 54 | 145 | 153 | 78 | 196 |
| | Gross Margin | 15,3% | 22,4% | 16,1% | 19,5% | 18,1% |
| Automotive | Gross Profit (Mn TL) | - | - | 144 | - | 265 |
| | Gross Margin | - | - | 24,5% | - | 26,9% |
| Total | Gross Profit (Mn TL) | 239 | 387 | 771 | 259 | 651 |
| | Gross Margin | 23,4% | 23,6% | 22,4% | 22,3% | 19,9% |



Sectoral Outlook



Valuation Based on Market Multiples

| Valuation Based on Market Multiples - KAREL | | | | |
|---|----------|---------|---------------|---------------|
| Market Multipliers | L3Y | Current | 2023/12E | 2024/12E |
| P/B (Max) | 17,64 | | | |
| P/B (Avr.) | 5,84 | 16,88 | 12,46 | 5,45 |
| P/B (Min) | 2,19 | | | |
| P/E (Max) | 3.096,25 | | | |
| P/E (Avr.) | 188,41 | - | 49,30 | 9,69 |
| P/E (Min) | - | | | |
| P/Sales (Max) | 3,79 | | | |
| P/Sales (Avr.) | 1,60 | 2,29 | 1,42 | 0,84 |
| P/Sales (Min) | 1,05 | | | |
| EV/EBITDA (Max) | 20,47 | | | |
| EV/EBITDA (Avr.) | 10,50 | 15,16 | 6,12 | 3,27 |
| EV/EBITDA (Min) | 6,42 | | | |
| Estimates | | Current | 2023/12E | 2024/12E |
| Equity (Mn TL) | | 754 | 1.021 | 2.335 |
| Net Profit (Annualized/Mn TL) | | - 107 | 258 | 1.313 |
| Revenue (Annualized/Mn TL) | | 5.556 | 8.951 | 15.216 |
| EBITDA (Annualized/Mn TL) | | 1.035 | 1.637 | 3.063 |
| Future Market Value Based on Average of Multipliers (Mn TL) | | | 2023/12E | 2024/12E |
| P/B (Avr.) | | | 10.213 | 23.345 |
| P/E (Avr.) | | | - | - |
| P/Sales (Avr.) | | | 17.901 | 30.432 |
| EV/EBITDA (Avr.) | | | 17.196 | 32.167 |
| Weighted and Discounted Value Based on Market Multiples | | | 2023/12E | 2024/12E |
| Weighted Value (Mn/TL) | | | 14.143 | 28.044 |
| Current Value (Mn/TL) | | | 13.548 | 20.757 |

Financial Statements

| Income Statement (Mn TL) - KAREL | 2020/12 | 2021/12 | 2022/12 | 2023/12E | 2024/12E | 2025/12E |
|---|---------|---------|---------|----------|----------|----------|
| Revenue | 1.019 | 1.637 | 3.443 | 8.951 | 15.216 | 21.302 |
| <i>Change</i> | 27,2% | 60,7% | 110,3% | 160,0% | 70,0% | 40,0% |
| Cost of Sales | 780 | 1.252 | 2.671 | 7.160 | 11.945 | 16.424 |
| Gross Profit/Loss | 238 | 385 | 771 | 1.790 | 3.271 | 4.878 |
| <i>Change</i> | 9,2% | 61,5% | 100,3% | 132,1% | 82,8% | 49,1% |
| <i>Margin</i> | 23,4% | 23,5% | 22,4% | 20,0% | 21,5% | 22,9% |
| Operating Expensis | 65 | 98 | 278 | 591 | 913 | 1.172 |
| <i>Ope. Exp. / Sales</i> | 6,4% | 6,0% | 8,1% | 6,6% | 6,0% | 5,5% |
| Net Other Operating Income/Expenses | 15 | 39 | 46 | 205 | 278 | 397 |
| Operating Profit/Loss | 188 | 327 | 539 | 1.405 | 2.637 | 4.104 |
| <i>Change</i> | 11,0% | 73,3% | 65,1% | 160,6% | 87,7% | 55,6% |
| <i>Margin</i> | 18,5% | 20,0% | 15,7% | 15,7% | 17,3% | 19,3% |
| Net Investment Activity Income/Expenses | 1 | 1 | 13 | 14 | 27 | 35 |
| Net Finance Income / Cost | -51 | -259 | -548 | -1.074 | -913 | -852 |
| Profit / Loss Before Tax | 138 | 68 | 5 | 344 | 1.751 | 3.286 |
| Tax | 22 | 2 | -54 | 86 | 438 | 657 |
| Net Profit / Loss | 122 | 66 | 46 | 258 | 1.313 | 2.629 |

| Financial Statement (Mn TL) - KAREL | 2020/12 | 2021/12 | 2022/12 | 2023/12E | 2024/12E | 2025/12E |
|--|--------------|--------------|--------------|--------------|---------------|---------------|
| Current Assets | 1.251 | 1.556 | 3.341 | 7.848 | 12.463 | 19.943 |
| <i>Cash and Cash Equivalents</i> | 373 | 65 | 195 | 798 | 2.304 | 5.295 |
| <i>Financial Investments</i> | 1 | - | 21 | 20 | 34 | 47 |
| <i>Trade Receivables</i> | 439 | 639 | 1.305 | 2.148 | 3.652 | 4.473 |
| <i>Inventory</i> | 365 | 743 | 1.335 | 4.028 | 5.021 | 8.095 |
| <i>Other Current Assets</i> | 74 | 109 | 506 | 854 | 1.452 | 2.032 |
| Non-Current Assets | 264 | 390 | 1.170 | 2.043 | 3.493 | 5.034 |
| <i>Property Plant And Equipment</i> | 118 | 205 | 344 | 558 | 969 | 1.502 |
| <i>Other Non-Current Assets</i> | 147 | 186 | 826 | 1.484 | 2.523 | 3.533 |
| Total Assets | 1.515 | 1.946 | 4.511 | 9.891 | 15.955 | 24.977 |
| Current Liabilities | 890 | 1.009 | 3.296 | 7.437 | 11.107 | 16.697 |
| <i>Short Term (ST) Financial Liabilities</i> | 637 | 490 | 2.343 | 4.506 | 7.949 | 11.212 |
| <i>ST Trade Payables</i> | 151 | 385 | 466 | 1.969 | 1.522 | 3.195 |
| <i>Other ST Liabilities</i> | 101 | 134 | 487 | 962 | 1.636 | 2.290 |
| Long Term Liabilities | 121 | 367 | 344 | 1.266 | 2.348 | 3.150 |
| <i>Long Ter (LT) Financial Liabilities</i> | 92 | 330 | 159 | 949 | 1.810 | 2.397 |
| <i>Other Long Term Liabilities</i> | 30 | 38 | 185 | 317 | 538 | 754 |
| Equity | 504 | 570 | 870 | 1.188 | 2.501 | 5.130 |
| <i>Net Profit</i> | 122 | 66 | 46 | 258 | 1.313 | 2.629 |
| Total Liabilities | 1.515 | 1.946 | 4.511 | 9.891 | 15.955 | 24.977 |

| Ratios | 2023/06* | 2020/12 | 2021/12 | 2022/12 | 2023/12E | 2024/12E | 2025/12E |
|-------------------|----------|---------|---------|---------|----------|----------|----------|
| EBITDA | 1.034,82 | 215,34 | 364,52 | 629,18 | 1.637,35 | 3.062,87 | 4.742,66 |
| P/B | 16,88 | 2,69 | 4,16 | 13,15 | 12,46 | 5,45 | 2,56 |
| P/E | - 118,37 | 11,06 | 35,67 | 218,19 | 49,30 | 9,69 | 4,84 |
| P/Sales | 2,29 | 1,32 | 1,45 | 2,91 | 1,42 | 0,84 | 0,60 |
| EV/EBITDA | 9,68 | 7,90 | 8,57 | 19,58 | 6,12 | 3,27 | 2,11 |
| P/EBITDA | 12,30 | 6,25 | 6,50 | 15,95 | 7,77 | 4,15 | 2,68 |
| EBITDA Margin | 18,62% | 21,14% | 22,27% | 18,28% | 18,29% | 20,13% | 22,26% |
| Net Profit Margin | -1,93% | 11,94% | 4,06% | 1,34% | 2,88% | 8,63% | 12,34% |

* 2023/06* data for the period are annualized.

The target value of a stock represents the value that the analyst expects to be reached at the end of our 12-month performance period.

Outperform (OP)

If this decision is made for a company, it indicates that better returns are expected for the stock compared to the index in the medium and long term. However, this decision does not guarantee that the stock will rise or outperform the index. Any changes in market conditions, developments in the macroeconomy, global economic developments, or news about the company after the report is published can change this decision.

In-Line with Index (IL)

If the decision of "In-Line with Index" is made for the relevant stock, there can be various reasons for this. This decision may have been made if the company's recent data and future estimates do not show significant differences compared to the past. The stock price of the company may be at levels close to what it should be in terms of valuations. Making an "In-Line with Index" decision for a stock does not mean that the stock will not move up or down. Generally, this decision indicates that in the medium and long term, a return similar to the index is expected for the stock. However, every new piece of news and change in market conditions can alter this decision.

Underperform (UP)

If the decision of "Underperform" is made for a stock, it indicates that weaker returns are expected in the medium and long term compared to the index. Even if the "Underperform" decision has been made for a stock, short-term price increases for the stock or short-term technical indicators giving a buy signal are possible. In some cases, even if returns are not expected from the stock in the medium and long term, short-term "Outperform" or "In-Line with Index" returns can be achieved when there is significant news, temporary profit increase news, or developments that will lead to a positive short-term price trend.

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