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Sabancı Holding
Q1 2025 Financial Results
Webcast

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Speakers:
Cenk Alper,CEO
Orhun Köstem, CFO
Kerem Tezcan, IR Director

Mr Kerem Tezcan, IR Director: Good afternoon, good morning everyone. Welcome to Sabancı Holding's Q1 2025 webcast. Please take a quick look at our screen before we start. We have our group CEO, Cenk Alper, and Group CEO, Orhun Köstem, with us today. Without further ado, I would like to give the floor to our CEO, Cenk Bey.

Mr. Cenk Alper, CEO: Thank you, Kerem, and good afternoon everyone.

As you know, normally I attend these meetings twice a year for half and year-end results. Yet, in the light of the recent leadership transition at our board, as well as the evolving global and local developments, I felt that it was necessary for me to be together with you and with the IR team this time. Before going into details, I would like to underline that both local and global incidents, particularly around US trade policies and ongoing political turbulence in Turkey, have a relatively limited impact on our performance, thanks to our diversified portfolio that is spreading across 17 countries, which has provided us flexibility to manage these effects.

We will continue to monitor how these issues evolve and their impact on our businesses. Given the number of questions we have received on US trade policy, we can start elaborating the impact of tariffs on our businesses. Tariffs obviously introduced a wide range of uncertainties on global economic environment, creating both challenges and opportunities for Sabancı Group. We operate in the US through our local investments in renewable energy, advanced materials including composites and cement grinding, while our export-oriented business includes tires, technical textiles, white cement, and buses, supplying the sectors such as energy, automotive, aviation, construction, and public transport. Our initial analysis shows that banking, financial services, energy, material technologies, and electronic retail businesses, which make up 95% of our NAV, are neutral to better positioned against tariffs compared to mobility businesses, which constitute 5% of our NAV. Although tariffs may increase input costs for some sectors, they could also lead to higher prices and potentially better returns. However, increased competition and weaker global growth might weigh on profitability as well. Therefore, we are closely monitoring potential sector-specific impacts to maneuver in the right direction and preserve value for our shareholders.

As you know, the ongoing political turbulence in Türkiye has triggered a new wave of volatility in the stock market. Despite this instability, orthodox policies have been maintained, and disinflation program is indicative of the dedication of the economy management to rebuild confidence. I can easily say that during these volatile times, the economy management was in close contact with us, the leading economic players in the country. Overall, throughout our 100-year history, we have successfully navigated numerous periods of volatility by concentrating on the factors which are within our control and preparing for those that are beyond our control.

We have a proven track record of financial and operational resilience. Our balance sheet strength combined with our well-diversified portfolio provides us with a strong foundation to weather the current environment. Based on what we are seeing today, there can be a limited impact on our businesses, and our medium-term strategy remains unchanged.

We are committed to achieving our mid-term guidance, which includes the goal of increasing our capex-to-sales ratio up to 15-20% over the next five years. We are also focused on accumulating value for our energy generation company by expanding its capacity. Turning to our highlights, in the first quarter, Enerjisa Üretim showcased its strong position in the YEKA Wind Power Plant 2024 tender in January, securing the two largest projects with a total capacity of 750 MW out of 1,200 MW tenders. The 1,000 MW capacity awarded in the previous YEKA Wind tender is being gradually commissioned. With Kıvanç Bey, our Energy Group President, I had the chance to visit the construction sites, and I have observed in place the progress of our project. With the completion of ongoing investments and additional capacity, Enerjisa Üretim is planning to reach at least 6,250 MW of installed capacity by the end of 2028, solidifying its leadership in Türkiye's private sector electricity generation, in line with our strategy to lead economic growth and sustainability in the country.

This quarter also marks a historic milestone for Sabancı Holding. After 21 years of tremendous track record of successfully serving as the Chair of our Board, Ms. Güler Sabancı stepped down on March 27 in the General Assembly. Working with her for 26 years has been an invaluable experience and a unique opportunity for me, especially in the last five years as CEO.

Her visionary outlook, principled stance and foresight have left a significant mark not only on our Group, but also on the business world in Türkiye. I extend my heartfelt thanks to Güler Sabancı on behalf of myself and our Group, and our goal moving forward is to elevate her standard even higher. Today, for the first time, Sabancı Holding is chaired by a career executive, Hayri Bey, from outside of the founding family.

This is also a groundbreaking move among major peers and corporates in Türkiye, where family members are shareholders. Following a meticulously planned succession process, the transition of the Chairship has been executed with seamless continuity, reflecting the resilience, foresight and maturity of our governance framework. Additionally, the majority of our newly elected Board members are seasoned professionals, another testament to our commitment to the best international practices in governance.

And most recently, in line with our strategic priorities, we have conducted an organizational review to boost the growth of our core businesses and to enhance our focus on investing in new growth platforms. In this restructuring, the Mobility Solutions Group has been discontinued, and Brisa will operate under the Materials Technologies Group. Additionally, we have streamlined our operations under the Digital Group to sharpen our strategic focus, specifically on data center investments.

This restructuring will enable us to drive growth more effectively across our key businesses and increase operational efficiency further to enhance shareholder value. So, all in all, the first quarter truly underscored our strategic focus on execution, organizational structure and corporate governance. Now let's come to the financials.

Our top line increased by 4% in real terms compared to last year, reflecting our resilient portfolio and market positioning. In non-bank EBITDA margins reached 11%, the highest first quarter EBITDA margin over the past three years, despite tough business environments. Our consolidated net loss narrowed down to 2.9 billion TL. Excluding monetary loss at the holding level, our non-bank net loss further declined to 874 million TL. More importantly, we also delivered a sharp improvement in our operational cash flow as well and maintained our strong cash position, which provides financial flexibility to pursue growth opportunities and navigate through these uncertainties. Our double-digit CAPEX to sales ratio and 1.6 times leverage were in line with our mid-term guidance, underlining our commitment to invest strategically while maintaining prudent financial discipline.

Now, I will hand over to our CFO Orhun

Mr. Orhun Köstem, CFO: Many thanks, Cenk. And again, good morning, good afternoon, everyone.

We're very happy to host you with our first quarter financial results webcast. And before I walk you through our combined and consolidated top-line results, I would like to, as always, give you a background of the environment, at least for the Turkish markets prevailing in the quarter. On page five, on the top left, you see the Turkish PMI index. Obviously, it was not very strong, if you look at the past 15 months. But compared to the first quarter of 2024, where the PMI was improving consistently month by month, unfortunately, in the first quarter of 2025, we're looking at the PMI decreasing consistently. I believe this is an important indicator that we need to continue watching as we look out for the rest of the year, for an indication of how the economy can potentially perform, for a slowdown or an acceleration compared to previous periods of last year.

On the top right, you see the CPI change versus the fixed basket change. And again, although the gap is getting smaller, the inflation continues to be faster than the devaluation of the fixed basket. Now, this is obviously important, mainly for our exporting businesses, you know, like Çimsa, Akçansa, Brisa and their continued competitiveness in the market.

On the top left, we see the CPI, PPI versus the policy rate. And we believe this shows a few things. One, as you see, the inflation is coming down, that's a good thing. However, as you see in the first quarter of 2024, compared to the policy rate, the inflation was higher. Now we've come to a period where the policy rate has surpassed the inflation. That's even before the big spike in April. So, I think, going forward, we're looking at a relatively higher positive interest rate environment, which is quite important, obviously, for many of our businesses’ bottom line. Also, I'd like to draw your attention to the fact that the gap between the CPI and PPI has also remained this year, which obviously has an influence on deferred tax liability for our companies. As you may recall, due to inflation accounting, statutory accounts are adjusted with PPI, whereas IFRS comes from CPI. And that difference will always result in some deferred tax calculation. That's also another factor to watch out for the bottom line of our businesses.

And finally, in the bottom right corner, you see how TLREF is changing. Now we try to give an essence of not necessarily the magnitude, because we could argue that, you know, the changes between the first quarter of 2024 compared to first quarter of 2025 may not be that high. However, I'd like to draw your attention to how that trend oscillates in relatively small periods of time. And of course, trend-wise, as you see, we were looking at the periods where the reference interest rates were coming down as we entered 2025. And now, unfortunately, somehow, it has increased. Again, this is an important watch out for the rest of the year as to how it is developed. That could be an issue in the financial performance of our businesses.

Now with that, we get into the next page,

As Cenk was indicating, our net revenue on the combined basis has grown by 4% compared to the first quarter of 2024. And you see, our bank, Akbank, has made a very significant contribution to that. The growth was much higher, which also is translated into the net performance of the bank and the inflation accounting. Whereas you see it has moved from -4.6 billion TL to close to break even in the first quarter of 2025. So, the bank's performance has supported our overall performance, especially at the bottom. If you look at the non-bank businesses, we've seen a 5% deceleration in our net revenues.

Having said that, we're quite happy with the fact that our operating performance has been somewhat intact. Now you see the EBITDA, which in absolute terms is almost flat, even in the first quarters of the last few years. And the margins have been consistently improving. And between the first quarter of 2024 to the first quarter of 2025, it was about 60 basis points. I'm happy to report that the non-bank EBIT margin has also grown from the first quarter of 2024 to first quarter of 2025, about 120 basis points. Which obviously is quite important at this time of relative volatility, where we expect to maintain the operating viability and health of our businesses, which we believe could put us in a much better footing when hopefully the macro environment normalizes.

Now, with this operating financial discipline approach that we believe translates into good operating results, you also see on page seven that our operating cash flow has increased significantly when compared to first quarter of 2025. Of course, this is with a focus on how we manage operating capital across many of our businesses, this is, of course, non-bank, because we believe, especially at these times of volatility, it's quite important to make sure that we manage our cash flow quite effectively.

Our return on equity compared to the end of 2024 has somewhat improved, but obviously we're still in the negative stage, given the fact that our bottom line is negative. And as you've seen from the previous page, the net profit performance of our non-bank businesses was somewhat limited, only about an 18% improvement compared to the first quarter of last year. Overall, the consolidated net profit change was about 60%. As I tried to explain, much of that has been contributed by the bank.

Now, on the next page,

Obviously, we believe, and we will continue to focus on maintaining a healthy balance sheet.

Our net debt/EBITDA on non-bank side has been at 1.6 times. Obviously, it's increasing year on year as we expand our investment across renewable generation capacity build-up in Türkiye or in the US for acquisition of subsidiaries like Mannok. At this period, obviously, it's a reflection of such growth initiatives. Having said that, we're at 1.6 times, which is below our long-term policy rate, 2 times. Our cash at holding level was at 18.4 billion. That's before the distribution of dividends. You can safely assume that we maintain the level of cash that was at the end of 2024 after our dividend distribution. On the capex to sales for our non-bank businesses, the percentage was at 10%. Still, we're looking at a double-digit number, which is slightly slow compared to the first quarter of 2024. However, we still see something about 13%, which is pretty much in line with our mid-term guidance that we have shared with you earlier. Basically, the business is, from an operating point of view, in good shape.

Although we are not able to deliver net profit, our net loss has been coming down consistently. Now, on the next slide, I will show you the net asset value, which unfortunately is now at more or less at the same level as it was at the end of December 2023. Following the recent volatility in the market, with a somewhat expanded discount.

However, when you look at the balance of our NAV, we have been reporting and advocating that the energy and climate, banking and financial services are almost equal. Again, going forward, just to remind, one of our aims is to make sure that we continue getting to the more balanced NAV share among our key business segments. With this, I'll turn over to Kerem to walk us through the details of each business segment, and then we can talk about or answer the questions. Thank you, Kerem.

Mr Kerem Tezcan, IR Director: Thank you, Orhun bey,

Let me begin with the bank. And just to remind the banking numbers presented on this page are based on BRSA financials as the banks are exempt from inflation accounting.

Akbank started the year solid, supported by dynamic asset-liability management, sustained fee performance as well as solid treasury management. Despite newly emerged sector-wide headwinds, including short-term reversal of rate cut cycle, Akbank has remained committed to enhance its recurring revenues and ensure sustainable profitability. Akbank's active customer base reached 14.6mn, up 73% over the last 3 years, with a 6.1mn net active customer growth. This growth has solidified the Bank's market position and set a strong foundation for long-term resilience.

Moreover, Akbank's ongoing success in customer acquisition contributed to an improvement in the fee-to-opex ratio, which improved by 34pp since 2022 to 92%, thanks to all time high fee chargeable customer base and strong cross sale. Having reached a new peak in fee income market share last year, Akbank recorded an additional 80bps gain among private banks as of March, bringing its share to 17.2%.

While identifying areas for sustainable growth, Akbank maintained prudence in risk management and cost control. The Bank's coverage ratio for stage 2 + 3 loans increased further by 140 bps YTD to a solid 29.4% amid ongoing risk management discipline.

Additionally, with a total capital adequacy ratio of 17.4% and Tier 1 ratio of 13.8%, Akbank continues to maintain a solid capital structure, providing a buffer against market volatility and challenges, ensuring critical resources for sustainable and profitable growth.

Moving on our largest non-bank segment, energy, in the generation business, revenues increased by 21% year on year in Q1, driven by higher generation volumes, from last year's low base. Recall that last year's generation volume affected by maintenance activities at the natural gas plants.

Despite the strong topline, EBITDA margin contracted mainly due to lower contribution from hydrology, reflecting the impact of drought and weaker dispatch contribution. While the contribution of trading was lower compared to last year, the bottom-line was negatively affected by higher financial expenses, reflecting increased debt, and a higher deferred tax expense related to lignite asset tax incentives.

Please also note that combined EBITDA of TL2.6billion (USD68million) in Q1 does not include synthetic hedge impact in this quarter, hedge expired by the end of 2024 and TL and USD EBITDA figures do not differ from each other.

On distribution and retail business, in the first quarter, Enerjisa Enerji delivered higher EBITDA, supported by OPEX outperfomance and higher contribution from both the regulated and liberalized retail segments. However, margin expansion remained limited due to lower financial income compared to last year as a result of lower inflation expectations in regard to the future economic outlook. On distribution, the company expects to reach and even go beyond its planned Capex for 2025-end, exceeding 2024 full year levels in real terms. Excluding one-off impacts, the company disclosed more than doubling underlying net income, reflecting significantly reduced monetary losses recorded within first quarter.

Energy segment constituted 71% share in Sabancı Holding's combined non-bank EBITDA and was supportive on the margin expansion recorded in the first quarter.

On the Material Technologies segment, in the first quarter, market dynamics across cement, tire-reinforcement and composites diverged notably.

In the cement business, domestic market conditions were challenging, particularly in Akçansa's operating regions, due to adverse weather conditions and extended holidays. These factors weighed on local construction activities and resulted in lower cement sales volumes; while pricing remained constrained as inflation continued to outpace the pricing adjustments.

That said, the overall performance for Çimsa was more resilient as volume stability was maintained for domestic operations. Mannok acquisition also contributed positively to the operational profitability, which added approximately 13mn euros to Çimsa's EBITDA. Meanwhile, lower energy costs and increased alternative fuel usage limited the extent of margin contraction in cement operations.

In tire reinforcement, profitability came under pressure due to multiple external factors. These included production suspension at the Indonesia facility following a flood at the beginning of March, ongoing FX-inflation mismatch in Türkiye and EMEA region, which put pressure on TL cost base as well as demand & pricing headwinds in global tire markets. In contrast, composites showed relative strength with growth in sales to more profitable industries. Consequently, segments' EBITDA, declined by 24% year on year with a 160bps margin contraction. Despite the softer operational profitability, the segment's net income increased by 3% year on year supported by monetary gains which offset the increase in financial and tax expenses.

Material technologies segment constitutes 12% share in Sabancı Holding's combined non-bank EBITDA, detached itself this quarter by delivering a positive bottomline performance.

On the Mobility Solutions segment, in the first quarter, EBITDA margin remained soft due to lower profitability in tire business. The commercial vehicles segment improved its performance, doubling its share in the segment's EBITDA, while tire business remained the dominant contributor.

In tire business, domestic sales weakened and maintained a similar sales mix compared to last year, while sales on both channels dropped. Commercial segments' sales declined on both channels parallel to the market contraction, while consumer OE was more resilient than replacement. Export volumes slightly increased as Brisa increased its market share in Europe's growing replacement market, while OE continued to face pressure in the region. The ongoing shift toward premium products was also supportive of the total sales mix. Pricing conditions remained challenging both for domestic and export markets, FX-inflation mismatch specifically pressured export prices.

On bus operations, favorable sales mix contributed positively to overall segment margins.

At the bottom of the segment, in addition to dropping EBITDA, the net loss was driven by increase in financial expenses in tire business, higher tax expense of bus operations and lower monetary gains on segment level.

Mobility solutions segment constitutes 10% share in Sabancı Holding's combined non-bank EBITDA with a lower contribution compared to last year.

As of April-end, the Mobility Solutions Group structure has been discontinued, Brisa will continue its operations under the Materials Technologies Group Presidency while bus operations will be structured under Energy and Climate Technologies, considering the electrification focus of this business.

On the Financial Services segment, the segment's inflation-adjusted topline declined by 12% year-on-year, mainly due to lower premium generation in non-life business. However, the segment's EBITDA improved significantly, which was largely driven by the Life & Pension business, and supported by the reclassification of deferred income from non-monetary to monetary liability. This reclassification impacted on the technical profit of the pension business and offset the impact of monetary losses under inflation accounting.

Profitability was also supported by reduced technical reserves in the long-term credit life product as BRSA regulation shortened loan maturities. Life business also maintained its number one position in gross written premiums among private companies and personal accident, which continued to grow its AUM size, supported by solid premium generation.

In non-life, the focus remained on profitable growth through high-margin products with a strong improvement in capital adequacy ratio, which recorded at 138%. The product mix continued to shift, with an increased focus on profitable products in each segment. This strategic transition led to a 34% decline in premium generation yoy.

The financial services segment's net income contribution was still negative but improved compared to last year, thanks to stronger profitability in the Life & Pension business. Still, monetary losses dragged down the bottomline, as insurance balance sheets are heavily exposed to monetary assets.

Overall, Financial Services segment constitutes 8% share in Sabancı Holding's combined non-bank EBITDA and was the leading contributor to margin expansion in the first quarter.

On the Digital segment, in the first quarter, revenues declined by 14% year over year from last year's high base due to softening demand on retail electronics sales volumes and weaker performance in both consumer electronics & IT market. Despite the decline in topline, the gross margin improved on retail electronics thanks to better product mix and disciplined promotional activity.

Segments' EBITDA increased by 30% over the last year, driven by higher contributions from cloud as well as managed services & digital transformation products. Restructuring efforts in SEM and Radiflow have started yielding positive results, while the Bulutistan acquisiton and new customer acquisitions in managed services added further support.

At the bottomline, a higher net loss was recorded in the first quarter as lower financial expense and higher tax income were not enough to compensate the lower monetary gains recorded compared to last year. Note that, as of April 30, Teknosa will continue its operations under the Strategy and Business Development Group.

In Retail, the segment achieved a 2% year-on-year top line growth in the first quarter, driven by improvements in alternative channels, despite weakening consumer spending. Strong EBITDA improvement was driven by operational efficiencies. However, the bottom line remained under pressure from higher financial expenses and lower monetary gains, resulting in a net loss.

Please note that, as of April 30, Carrefoursa will also continue their operations under the Strategy and Business Development Group.

So this finalizes our segments. If you have any questions, please use the Q&A section of the Zoom.

Kerem Tezcan, IR Director: We have one question from Cenk Orcan (HSBC). Can you please elaborate or data center investments?

Mr. Cenk Alper, CEO: As we have mentioned to you in the last call, we are actively working on a couple of projects, both in Türkiye and abroad.And hopefully you will be hearing from us this year about the data center investments. Our current focus is also to integrate Bulutistan to our managed services business with SabancıDX. And we are quite happy with the integration efforts as of today.

Kerem Tezcan, IR Director: It seems like we don't have any further questions. I'm now then go over to our CEO Cenk bey for closing remarks

Mr. Cenk Alper, CEO: It is clear that the environment has changed dramatically since March, both in Türkiye and abroad, and we remain vigilant on assessing the impact of these local and global developments in our businesses. Despite the challenges this environment may pose, we are confident in our strategy, our investment pipeline, and our ability to execute as demonstrated by our portfolio transformation in previous years and balance sheet strength. We are focused on being agile in the current environment, and I firmly believe that we have the right strategy to deliver higher returns to our shareholders with our strong, highly liquid balance sheet providing us with a solid foundation for achieving this.

Thank you and goodbye.