



Sabancı Holding Q2 2025 Financial Results Webcast

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Speakers:

Orhun Köstem, CFO

Kerem Tezcan, IR Director

Mr Kerem Tezcan, IR Director: Good afternoon, good morning. Welcome to Sabancı Holding's second quarter earnings call. Please refer to our disclaimer page before we start. And also, again before we start we would like to thank all of sell side and buy side for their support for us in the Extel survey. It is greatly appreciated. I now would like to leave the floor to our CFO.

Mr. Orhun Köstem, CFO: Thank you, Kerem. Good morning, good afternoon, everyone. Welcome to Sabancı Holding's second quarter of 2025 earnings call.

We're very happy to be with you together today. We're also very happy to report another good quarterly performance. And it has been a quite a busy quarter from an agenda point of view obviously from Sabancı Holding side as well as domestic and international events. On the Sabancı side as you see on page one first of all let me start by saying and again repeating, we have a change in our chair. Güler Sabancı obviously has left and now Hayri Çulhacı is Sabancı Holding's chair of the board of directors. This we feel is quite important not only because we now have a non-family chair in Sabancı Holding's board of directors but also now the majority of the board of directors are composed of non-family members.

Secondly as you know Kivanç Zaimler has been appointed as the chief executive officer of Sabancı Holding in the second quarter. And obviously this is something that has taken place towards the end of the second quarter of the year and then we have some changes in our business units which we feel today is a more streamlined way as to how we would operate to deliver on our long-term strategic targets. On the key development sides, we have announced our acquisition of the Pepper Solar Farm in Texas U.S. with 156 megawatts of capacity together with Cutlass which came on stream last year and

then Oriana which is coming on stream this year in fact as we speak. So, our capacity in the U.S. have come closer to 600 megawatts and I'm pretty sure you're going to continue hearing from us about our investments in the U.S. on the renewable energy generation side. We have already announced our capital commitments of about 395 million dollars by 2027. And in Türkiye, Enerjisa Üretim's generation capacity has surpassed four gigawatts as far as I know is 4.1 as of today as more and more windmills are coming on stream from the YEKA capacity expansion project as we speak. So, as you see, in the second quarter we were on full steam in terms of our delivery on our strategic targets. And financially we did reasonably well. Of course, we've seen in the second quarter a combined revenue growth of real four percent and you know same for the half and the quarter in that sense pretty much in line with our annual growth over the past two years a touch higher maybe three percent to four percent so pretty good. Our EBITDA margin was on a non-bank basis on a combined basis by over 300 basis points in the quarter and close to 200 basis points in the first half. And of course, in the second quarter we've delivered the 1.8 billion Turkish lira of net income and I'm obviously going to come in a little bit more detail about that. We still have a very flexible and healthy balance sheet, and we have made sure our cash flow generation continued to be strong basically as we continue progressing to our capex and expansion and growth opportunities. And our net asset value has come closer to where it was reasonably close to where it was at the end of 2024 after dipping especially at the start of the end of the first quarter, start of the second quarter this year.

Now if I can give you a bit more color as first of all on page five what the background was in the second quarter as I was saying it was a quite a colorful quarter in that sense because as you've seen first of all the geopolitical risks continue to remain high, between Russia and Ukraine or Israel and Gaza, Iran in that period especially if you remember, the geopolitical risks continued to remain high. The trade policy risks were high, needless to say the tariff situation although looking from today seems a little bit more, maybe clear. The second quarter, it was really really the risk was really high because of the uncertainty of the you know global trade impact on the global trade in general. On the commodity or energy prices side as you see and as we were saying earlier as well this year, we're towards the bottom line of the five-year range as we've seen which obviously is positive for many of the production businesses. In Türkiye as you see the second quarter has been a quarter where the monetary tightness was very strong. Even though the rates the policy rate has come down starting from the end of the year we've seen in the second quarter the policy rate has increased basically and then obviously compared to the inflation there has been a very significant real interest rate environment and of course it has implications on many businesses basically. And the difference between the inflation CPI and PPI versus the FX or the devaluation continues. The devaluation continues to trail behind inflation and that as well has implications on many of the businesses. So this is the backdrop of the second quarter and again let me underline we're quite happy to be able to deliver good results in this otherwise challenging second quarter of 2025.

If I can now take you to those results on page six first starting from the second quarter of the year as I said we've seen the combined revenues grow by four percent and again they have grown the same in the first half and the same for our bank and non-bank businesses. If you look at EBITDA, given the fact that we have been through a very serious monetary tightening period in the second quarter of course it has implications in the overall banking sector I'm pretty sure you must have heard from our colleagues in Akbank talking about this. However, if you look at the non-bank side, we're happy to say that we have delivered quite a significant absolute EBITDA growth as well as a serious margin expansion and the margin expansion on the non-bank side was about over 320 basis points friendly speaking. And as far as the net income is concerned with a very serious rebound, we've delivered 1.8 billion Turkish lira of net income and of course now you see for this quarter the majority is driven by the non-bank businesses.

If you look at the first half we've seen now the first half bank's contribution to combined revenue growth was much stronger obviously, where we've seen a slight contraction in real terms in the revenue of the non-bank businesses nevertheless if you look at the profit performance again, we've seen the non-bank businesses contribution to be quite meaningful, where the EBITDA in real terms have grown by 17% and again with a margin expansion of about 190 basis points and in the first half of the year there has been a very significant rebound in our bottom line even though we are yet to recuperate the impact from coming from the first quarter but looking at the momentum of the business I think it's fair to say that we're on the way to deliver in the rest of the year. I think it's important to note that again we're quite happy to be able to deliver in this otherwise relatively challenging environment and obviously in the best position to deliver better when the conditions normalize in the remainder of the year.

If you look at the cash flow generation that's on page eight of course we are prioritizing the cash flow generation in our business and working capital management obviously in order to make sure that we maintain a healthy balance sheet for all of our group in general. And therefore, our operating cash flow has more than doubled in the first half of 2025 and reached just under 30 billion Turkish lira. Our return on equity is still negative as I said. Now, of course a little seriously less on the non-bank side and as we hope to continue delivering better and better quarter by quarter as you've seen, obviously we expect to see changes happening here as well.

If you look at our balance sheet our net debt/EBITDA is at 1.7x. There is an increase year-on-year as I'm sure you're following and that's quite natural you know between Üretim's capacity expansion, Sabancı renewables, new generation capacities coming on stream, acquisition of Mannok by Çimsa in the last quarter of 2024. Of course, we are seeing our net debt/ EBITDA levels increasing nevertheless there are still less than 2.0x net debt/ EBITDA which is our policy rate on the non-bank basis as you remember. And our capex to sales therefore continue to remain reasonably high at 12.6 percent of non-bank net revenue in the first half of 2025.

And if we go to talk about a little bit of our NAV, as I said is back to 9.8, was 10.6 at the end of 2024 billion dollars of course and dipped just under 9 million in April and that was when I think we had our discussion with you about the first quarter as well. So therefore, we've seen some rebound in our net asset value even though the discount continues to be quite attractive at 49%. And if you look at the share of the NAV again banking and energy and climate remains to be the largest contributors to the NAV although much comparable in their share versus a few years back basically. So, with that I'll hand over the discussion to Kerem which will give a little bit more detail about each business unit. Kerem.

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

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

Macroeconomic conditions in the second quarter were challenging for the banking sector. Akbank remained committed to enhance its recurring revenues to ensure sustainable profitability. Akbank's proficiency in flexible balance sheet management allows to stay aligned with regulations and respond swiftly to market shifts while its sustained fee performance continues to be supportive factor for profitability. Rebalancing and optimizing funding mix while increasing widespread consumer-only TL time deposits deposit footprint enabled to keep it upkeep TL loan to deposit ratio at low level which will support margin enhancements. Moreover, Akbank's ongoing success in customer acquisitions contributed to its fee to OPEX ratio which improved 38 percentage points since 2022 to 100% thanks to all-time high fee chargeable customer base and strong cross-sells. This efficiency indicator proved the scalability of the operating model and the strength of non-interest income streams. Optimizing loan portfolio through disciplined risk framework has enabled to maintain sound asset quality supported advanced analytic capabilities. Meanwhile the share of stage 2 and 3 loans representing potential problematic exposures remains low at 8.7% of the gross portfolio while the coverage ratio stands strong at 32.7% reflecting disciplined risk management practices.

We can now turn to the core metrics of the bank. Swap adjusted net interest margin fell to 2% in Q2 as higher wholesale funding rates limited loan repricing impact due to growth caps and ongoing elevated reserve requirements delay the expected margin recovery. Looking ahead, its strong balance sheet supported by extended TL maturity optimized funding through increased time deposit share and targeted securities portfolio management positions the bank well to capture margin improvement opportunities in the coming periods. Also, its prudent cost management ensures effective OPEX control while the bank sustains its long-term ambition in cost-to-income ratio to remain in the mid-to-low 30% range in line with its historical averages. With a total capital adequacy ratio of 17.4 percent 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 resource of sustainable and profitable growth.

On financial services life business gross return premiums increased 36% year-on-year reaching over 14 billion TL in the first half with a 20% year-on-year increase in the second quarter. Maintaining its leadership among private companies in both private pension assets under management and life and personal accident premium production, assets under management excluding auto enrollments grew 10% year-on-year to 282 billion TL. In non-life the selective and sustainable profit driven approach continued, supporting the improvement in the capital adequacy ratio which reached 170%. This strategic focus led to a 28 percent year-on-year decline in gross written premiums, assets under management down by 13% in the first half.

Segments inflation adjusted top line remained almost flat with declining 1% year-on-year in Q2 driven by a contraction lower premium generation in non-life business despite the positive contribution from the life business. EBITDA increased significantly by 76%, largely driven by the life and pension business and supported by the reclassification of deferred income from a 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. Technical profit was also supported by volume increase on credit-linked life products. The segment's net income contribution turned positive thanks to stronger profitability in the life and pension business and the offset from reclassification of deferred income from a non-monetary to monetary liability. Overall financial services segment has 10% share in Sabancı Holdings combined non-bank EBITDA and one of the main contributors to margin expansion in the second quarter.

Let me continue with our largest non-bank segment energy. Before getting into financial performance let me first give you a quick overview of operational landscape in the second quarter. On the generation side production volume increased by 30% year-on-year mainly due to a low base of last year caused by the maintenance work at our natural gas plants. Yet, hydrology remained weak due to ongoing drought which is a structural challenge for Türkiye especially in peak seasons. Spot electricity prices were largely flat on a year-on-year basis, averaging 61 dollars per megawatt while regulated price cap was increased by 13% to an equivalent of 85 dollars per megawatt as of June end USDTRY rates. Spreads were partially weighed down by 24% year-on-year due to the increase in natural gas prices that took effect in April. In July, electricity demand picked up and spot prices climbed above 70 dollars per megawatt, suggesting some recovery in momentum. Generation capacity growth continues as well has now reached 4.1 gigawatts driven by the progressive commissioning of wind projects under YEKA 2 program. To fund new YEKA 4 projects tended back in March net debt EBITDA was pushed to 2.7x. Enerjisa Enerji delivered stronger EBITDA year-on-year driven by higher efficiency and quality earnings in distribution business despite lower financial income due to relatively low investments year-to-date and easing inflation expectations. Retail's contribution was relatively soft in Q2 while higher gross profit from energy efficiency projects in customer solutions supported the year-on-year EBITDA growth.

On the investment side the company expects to meet its 2025 CAPEX target of 21 to 24 billion, representing approximately 45% growth compared to last year while targeting the upper end of our underlying net income guidance which was earlier announced as 5 to 6 billion TL.

Looking at the overall performance of the energy segment top band grew by 9% year-on-year in Q2, while EBITDA margin expanded by more than 500 basis points, reaching 19%. The bulk of this improvement came from the generation business which largely benefited from higher generation volumes and capacity utilization together with increased capacity payments that support both EBITDA and net income. In the distribution and retail business, net income posted a significant year-on-year increase and excluding one-offs, the improvement remained substantial in underlying net income, mainly driven by a sharp decline in monetary losses. As a final note bus operations are also reported under this segment while its current contribution is limited.

On material technology segment, starting from Q2 tire and tire centric solutions have been included under this segment alongside cement and tire and composite reinforcement businesses for a more integrated view of our financial verticals. In the cement business domestic market conditions were mixed with subdued demands in Akçansa's operating regions, while ongoing reconstruction in earthquake affected regions were supportive. Export performance and specifically international operations offered support reflecting the segment's top-line performance while the Mannok acquisition contributed 18 million Euro in EBITDA in Q2. The ongoing grinding investments in the US which is expected to be operational throughout Q4, will support Çimsa's international operations. Although production cost slightly increased Çimsa's diversified product mix helped cushion the margin pressure. In tire and tire centric solutions, domestic sales softened across both OEM and replacement channels. That said export offset this weakness however FX inflation mismatch continue to pressurize on margins. On a more positive note, the continued shift toward premium products supported the overall sales mix, while price pricing pressure persisted in both domestic market and exports. In the tire reinforcement, despite multiple challenges the business delivered margin improvement in the second quarter supported by composite performance together with efficiency and cost improvement in the tire reinforcements. The flood in Indonesia reflecting only direct impacts the ongoing FX inflation mismatch in Turkey and India and global softness in tire reinforcement demand remained key headwinds while composites were supported by growing sales to higher margin industries. In this quarter no impairment has been recognized for the float which will be readdressed in the remainder of the year. Insurance coverage for this event is up to 50 million dollars including business interruption for up to 12 months.

Looking at the whole performance of the material technology segment, top line declined by a limited 2% year-on-year in Q2, while EBITDA margin contracted by more than 180 basis points reaching 12%. Cement operations hold the largest share in the segment compared to tire operations and much of the annual decline in profitability can be

attributed to margin contraction in cement mainly due to increased fixed costs. The decline in segments' net income was primarily driven by higher financial expenses, especially in the tire business. Meanwhile monetary gains and tax expenses were relatively supportive across all operations.

And finally at digital and other segments. In retail electronics in the first half of 2025 the panel market contracted by 5% year-on-year as weak demand and lower purchasing power affected revenue growth. Despite this challenging environment, gross margin improved by two percentage points to 14% driven by a favorable product mix with a focus on high margin categories, disciplined promotional strategies and effective inventory management. In the food retail segment despite weakened consumer spending, the share of alternative channels rose by 2% points to 12% in first half 2025 helping to partially offset the top bank contraction, which is consistent with efforts to improve operational efficiency and profitability in the second quarter.

In the digital segment revenues rose by 49% year-on-year in Q2 while EBITDA improved by 85 percent but remained in negative territory. Despite operational improvement financial expenses weighed on the segment's bottom line and net income also remained negative. Segment's top line increased by four percent year-on-year supported by resilient revenues in retail electronics and food retail. EBITDA rose by 41% mainly driven by retail electronics, benefiting from mix and cost optimization efforts. However, both in food retail and in retail electronics higher financial expenses pressured the bottom line despite supportive tax impacts and monetary gains.

This finalizes our review of the segments. Now I would like to leave the floor to Orhun Bey for final remarks.

Mr. Orhun Köstem, CFO: Thank you Kerem. As you've seen different parts of our portfolio delivers different performance given the relative volatile macro environment but you if you look at the portfolio as a whole we can say it's quite resilient and delivers reasonably well. Secondly, of course reading the P&L with inflation accounting could be relatively difficult given the monetary gains or losses or changes in deferred taxes and especially changes in interest rates from one quarter to another. Therefore, we are particularly happy especially on the non-bank businesses that the operating performance continues to remain very solid and strong. This we believe will be the base over which we will continue building our successive financial performance delivery. And finally, we're cautiously optimistic, as the conditions continue to normalize given the disinflation program in the second half of the year and all of our businesses including the bank will continue to do good in terms of achieving better financial performance compared to last year.

And with that we would move to answer any of your questions. Thank you.

Kerem Tezcan, IR Director: Thank you all. Please type your questions to the Q&A section of the Zoom.

We have the first question. Is there any progress in the planned data center investments?

Mr. Orhun Köstem, CFO: Cenk Bey, merhaba and thank you for the question. As you heard from us, time and time again, we see a great opportunity between delivery of energy, that's what we believe we're good at, and of course the demand growth in data centers. And we will continue pursuing opportunities in Türkiye as well as in, you know, select places outside of Türkiye as well. And we hope you're going to hear from us about the progress and developments on our data center initiatives going forward. Thank you.

Kerem Tezcan, IR Director: Thank you Orhun Bey. Please type your questions to the Q&A section of the Zoom.

We have another question from Cenk. Given the base effect impact of Enerjisa Üretim's Q2 performance, should we expect some normalization in Q3, Q4?

Mr. Orhun Köstem, CFO: Again, thank you Cenk Bey. Well, I think, compared to last year, of course, this year Enerjisa Üretim's performance is relatively better. Having said that, in my opinion, it's too early to say everything is going to seriously normalize in the second half of the year.

And the reason I'm saying that is, the operating conditions continue to be challenging. I'm sure you must have read through our disclosure that hydrology is not great, as I'm sure you must be experiencing, severe drought taking place, obviously. And then obviously pricing is moving, especially in the first half compared to the first half of last year and I'm referring to the price cap and the increase in price cap in the first half of the year. So yes, I can say we're cautiously optimistic in that front as well. But again, we will continue making sure that we follow the progress quite closely and deliver, as best as we can under the circumstances. Otherwise, as I tried to underline, the business in general does well, even under these conditions. Of course, we continue growing the capacity with the installation of the YEKA project. And we're quite happy that we have a secure pipeline now with this 750 megawatts that the company acquired earlier in the year. So, I think over a mid-to-longer term, I think the prospects continue to be quite positive. Thank you.

Kerem Tezcan, IR Director: Thank you, Orhun Bey. We have another question. What are the priorities under the new CEO and Chairman leadership?

Mr. Orhun Köstem, CFO: Thank you, Hanzade Hanım. I think, at this point, it's obviously fair to say that in broad terms, we don't expect any significant change in the direction of our business and the direction of our group. And I'm also pretty sure there could be some small changes here and there as to how we execute as we continue delivering towards our longer-term vision. And we would be more than happy to share with you if and when such changes were to materialize once we finalize our strategic planning process as we do every year at the last quarter of 2025. Thank you.

Kerem Tezcan, IR Director: Thank you, Orhun Bey. We have another question. Could you discuss your renewable business in the US in the context of potential suspension of some subsidies? If economics deteriorate further, could you easily cancel some of your planned investments?

Mr. Orhun Köstem, CFO: Thank you. Look, given the current state of the big and beautiful bill, neither are projects like Cutlass or Oriana existing, nor what I've just shared with you the new capacity with Pepper Solar that's coming on soon would be impacted. And as we still look to utilize up to 40% of, you know, tax credit opportunities in these projects. And again, over the long term, if you remember what our premise for our investments in the US renewables were, we were not necessarily aiming to grow as a build and operate business. Unlike our position in Türkiye, we don't aim to be the largest energy generation unit. We would very much like to be able to deliver good portfolio returns over a lower cost of capital in the US market. We believe our projects and the projects, obviously, that we would be able to deliver until the maturity of some of the tax incentives, we would be able to build a portfolio which potentially will yield even a higher value, given their access to tax credits throughout those changes, which, in our opinion, should serve quite well with our long term objectives in the US. Thank you.

Kerem Tezcan, IR Director: A follow up question. Do you expect higher electricity prices in the second half of the year, compared to last year? Do you have any estimated EBITDA generation from the US solar power plants?

Mr. Orhun Köstem, CFO: Thank you. Well, first of all, as you know, in the US, it's a fully liberal market. So, it is difficult to say exactly where the prices are going to go. I can say, obviously, compared to last year, we're enjoying a better environment this year. And also, we're changing how we operate, so that we enjoy a year ahead market, as we price, our output on a day-to-day basis, I think these would be some supporting elements for the remainder of the year. Businesses are EBITDA positive. I can't give you an exact projection for that. But we're happy that the business continues to deliver and hopefully, on the bottom line as well, we'll deliver positively. Thank you.

Kerem Tezcan, IR Director: Thank you Orhun Bey. If you have any questions, please type to the Q&A section of the Zoom. Thank you.

Another follow up question, please share your outlook also for power prices in Türkiye.

Mr. Orhun Köstem, CFO: Thank you. Especially on the generation side, this is important. And you remember that back in 2002, the price levels have gone above 100, \$124 or something, basically, which was the highest, obviously, in recent history. Having said that, this was, sorry, 148, I'm correcting myself, even higher than 124 on megawatt hour basis. Having said that, this was obviously not sustainable. And then, we've seen after, and this was obviously, driven by the Russia-Ukraine war, these dropped just under \$100 to 97 in 2023. And 2024 was more like, \$68 per megawatt hours, basically, I think this year friendly speaking, we don't expect anything significantly higher than that in the rest of the year, measured in dollar terms, even though there was in Turkish lira price cap increase. So, I think that should be at least a reasonably cautious outlook for the rest of the year.

Kerem Tezcan, IR Director: Thank you, Orhun Bey. If you have any further questions, please type to the Q&A section of the Zoom. Thank you.

It seems there are no further questions. Thank you, everyone, for joining.

Hold on, we have another question that has just popped up. How do you expect EBITDA to differentiate between non-bank and bank segments as the year progresses?

Mr. Orhun Köstem, CFO: Thank you, Ahmet Bey, for the question. In the first half of this year, the non-bank has delivered about 51% of our combined EBITDA. And compared to 2024, in 2024, this was more like 40%. So obviously, the non-bank's contribution on EBITDA was higher. Now, this is especially in the second quarter, driven by the changes in monetary tightening, which have impacted on the whole banking sector, and therefore our bank operation as well. I think for the rest of the year, one of the biggest drivers or parameters of this is how the current disinflation program is going to continue, how is the policy rate changes are going to continue.

As I'm sure you must have seen today, the inflation report by the central bank obviously suggests a reasonably tighter outlook for the monetary conditions. So I think I'm pretty sure that on the non-bank side, we will continue delivering, as I said, on our operational performance that we've built in the first half of the year. On the banking side, as I said, it's very much driven by how monetary policy, and the execution of the monetary policy is going to continue in the second half of the year. Thank you.

Kerem Tezcan, IR Director: All right. If you have any questions, please type to the Q&A section of the Zoom. Let's give a couple more minutes.

Well, it seems there are no further questions. Once again, thank you again for joining and hope to see you in various occasions and then in third quarter earnings results.

Mr. Orhun Köstem, CFO: Thank you very much. Goodbye for the time being. Goodbye.