

# TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.

## TOFAŞ Türk Otomobil Fabrikası A.Ş. 3Q19 Financial Results Conference Call and Live Webcast

Thursday, 31<sup>st</sup> October 2019, 17:00 (TR Time)

### **Conductors:**

***Mr. Cengiz Eroldu, CEO***

***Mr. Fabrizio Renzi, CFO***

***Mr. Mehmet Ağyüz, CFA - Investor Relations Manager***

Conference Call Conducted by Chorus Call Hellas



CHORUS CALL HELLAS  
PROVIDER OF TELECONFERENCING SERVICES

TEL: +30 210 94 27 300

FAX: + 30 210 94 27 330

Web: [www.choruscall.com](http://www.choruscall.com)

## **Q&A SESSION**

OPERATOR: The first question is from the line of Kunter Selim with AK Investments. Please go ahead.

SELIM K: Hi, thank you for the call. It may be a bit too early to make any comment on this, but would you give or could you give any color on what repercussions of the PSA and FCA merger would be on Tofaş, and I was wondering what's the state of the Doblo contract at this stage? Thank you.

RENZI F: Okay, Fabrizio Renzi speaking. Thank you for your question, okay. The first one about the talks between FCA and PSA, I don't have any comment. I cannot make any comment on this. This deal has been managed at a very high level, so we heard news yesterday with all of you, so really I cannot make any comment. I don't want to deliver any speculation on that.

The only additional color that I can give you is that FCA and PSA have a longstanding cooperation in the light commercial vehicle, so FCA knows this partner; they cooperate in Italy and in other place, have cooperated for 40 years let me say also successfully as a part of this industrial cooperation, also Tofaş knows this partner. As you can remind, we cooperate with PSA in the MCV project. So I don't have any other comments. I can add that if this deal is good for FCA, it is good also for Tofaş, so to have a stronger FCA is a positive direction also for Tofaş.

Second question was related to Doblo I know that you all are eager to know... to have news about the Doblo and I don't want

to disappoint you, but the situation is that we are working on this project still.

Today, nobody is not so easy to approve a project, a very big project with very huge investments. So... but what I can say is that we are working on that. Our engineers are working hard on that, but believe me in this moment to approve a huge project is not easy. You have to design the right project, the right vehicle. You have to design the products that meet the needs of the European market, the Turkish market and this is the first difficulties.

The second is the emission; you know starting from next year all the European car makers will face this problem. So also the emission is another challenge for the coming years, so you have to design the right products that could meet the requirement in each country. So we are working on the project, so and this is a good thing. In the past conference call, we mentioned that most probably by the end of the year we can announce something.

SELIM K: Okay, thank you.

OPERATOR: The next question is from the line of Kılıçkiran Hanzade with JP Morgan. Please go ahead.

HANZADE K: Thank you very much. My question is about domestic market. Did you show... I mean did you make any sort of price adjustments so far in September and October and do you plan to increase the prices further to cover the cost of this new incentive?

And the second thing is that, I mean this year was very strong in the domestic market, you have a very good base now for 2020. It is still too early to comment, but can you please roughly comment about what could be the demand in the Turkish market on the very slow interest rate environment next year, I mean can we go back to 2008 levels or you still see some sort of weakness in the demand?

AĞYÜZ M: Well, what we are observing is that we have gradually have implemented price increases since September, especially remember that also there is a cost increase from the emission transition also for Turkey which became effective in October, so we started adjusting prices.

For the burden of the financing scheme, it's... we cannot share which burden we are undertaking, but we are optimizing and our focus is not to sell you know sell in a very profitable manner, so we are doing adjustments to reflect these cost increases both from the financing scheme as well as the emission rules.

As for next year, I mean, also it depends how we close this year, but what we can say is for next year, we are...probably with this September we had seen the worst is over and if the interest rates continue to come down especially, if it comes down at this pace, we may not need the financing incentive as well and we may see markets growing by around 10% to 20% depending on how this year will shape up.

HANZADE K: Thank you.

OPERATOR: The next question is from the line of Demirtas Cemal with ATA Invest. Please go ahead.

CEMAL D: Thank you for the presentation. My question is very much related to your export performance. We have been seeing that you know, you were cutting your estimates for a while and now we see that you narrowed to 200,000 to you know, 210,000 levels.

You know, I understand that, you know, except for the PSA impact, we see some weakness in some areas. And possibly could we assume that you are going to be closer to the lower end of the, you know, this range, is that high... is there the high possibility. I just want to know about that.

And going forward for 2020, could we just based on your... the rough estimates, could we assume that your exports might be bottoming out in 2019. If that's the case what do you think could be the catalyst for any recovery from the levels, we have seen in 2019? Thank you.

RENZI F: Okay, Fabrizio Renzi speaking. For the exports, as you mentioned, we decide to reduce the upper level because we believe that is not doable. So...but of course, if we keep and changed our lower level means that we believe that we can reach these 200,000 vehicles, so basically it means to sell, to export 50,000 cars in the last 3 months, so we believe that is something that we can achieve.

I would like to give some additional explanation maybe mathematics; the 22% that we are registering in 9 months in reality is composed by very different quarter. 2% to 3% was the drop in the first quarter and most probably, we are still suffering this in our 9 months' performance, 17% was the drop in the second quarter and 10% is the drop in the third quarter.

If you can see that in the last quarter, we will not have the base effect of Opel, so we believe that this is a reachable level for this year. So, this is the reason why we decided to keep the lower range and change it.

Second question is about the 2020. Okay, we cannot plan for sure an increase of the export next year, so what we expect is a European market flat at least for the passenger car, maybe the situation will be a bit better for the light commercial vehicle where the e-commerce seems to be the driver for the growth this year, maybe next year.

But as Tofaş, with our products, we don't expect an increase for sure. To be honest, we are... we know where we are, we know what to do. This is the reason why for passenger car for example, we have approved €200 million of additional investments to refresh the Tipo family, but we know where we are also with Doblo.

So, we know that this vehicle is approaching the end of the life cycle and we are working to replace the vehicle. So, it's early to discuss about 2020, but for export, I don't expect an increase to be honest.

AĞYÜZ M: I mean, next year could be a transition year, but as you know, we will be introducing new vehicles to the market in 2021. And... but we are... we have the luxury to accommodate that kind of transition years because of our contract structure. So, we are pretty much protected under financial front, but this is you know, more investments towards... beyond 2020. I think with the new vehicle portfolio; we are better positioned for...in the medium term.

CEMAL D: And as a follow-up related to your domestic market performance, you had an impressive margin so far this year, do you think this is sustainable or this is just...I'm sure you will target high numbers, but from again... from your experience, do you think you will, at least maintain that market level or slight decline or slight increase, what's your perspective? Were there any exceptional things that changed your market share or just is there something structural that we can assume at least you can't sustain these market share levels? Thank you

EROLDU C: Okay. Cengiz is speaking, so regarding the... first of all, for the last quarter of this year, for us it's important the production because in the local markets we have the rich potential with low interest rate atmosphere, so we are facing today important demand and we are trying to balance export demands and local demands, but I can say that we are little bit short for the local part. So we will fulfill all the production capabilities of Tofaş for this year.

Regarding the margins, we are in a good shape in the margins than market share. For the margins, we are in a good shape and we want to improve it, so we can do it also. We have this

potential in the market because as you know also we improved our channel mix, now we are mainly selling to the retail customers, not the fleet, not so much, so the penetration of the fleet of course, there is always fleet customers, but our penetration on the fleet side is significantly lower compared to last year performance. Still the recovery will take a couple of years.

I strongly believe that we will keep our market share performance also in the future periods because today, the luxury part of the automotive industry is missing, because for this season also you are seeing an improvement on the Fiat brand's market share. When the market will be normalized and we will come back to the 2017 levels, we will see also some decrease on our market share.

CEMAL D: Thank you, Cengiz.

EROLDU C: Okay. Thank you.

OPERATOR: The next question is from the line of Kurbay Berna with BGC Partners. Please go ahead.

BERNA K: Good afternoon. Thank you for the presentation. I have 2 questions. The first one is about outlook in the European market. You have already mentioned that for next year passenger car markets will continue to be a challenge but light commercial vehicle market could do well or continue to do well. I was wondering if you are experiencing or forecasting any impact from the WLTP transition that hit the sales in September. Has there been any demand that will pull forward on the

commercial vehicle side that might extend to the rest of the year and going into 2020? That's my first question.

And my second question is about the MCV actually. Could you remind us what outlook for that vehicle is? What are your plans on that since we always focus on Doblo and Tipo in these discussions? Thank you.

EROLDU C:

Regarding the compliance issue on the commercial vehicle side, we don't see any issues, so our cars and engines are compliant with the WLTP rules. Of course, the issue is the cost increase because the... this level of homologation is expensive than the before level. So only the customers should accept to pay some more to the cars, so that's the only issue, but we don't see any compliance issue.

For the Fiorino or mini cargo project, we want to continue until we have the customers. So car is still valid although is coming from 2007, but we strongly believe that there is a market, because this is the... now is the only car in this size in the...both for Turkey and Europe. So we want to continue till we will have the certain demand.

BERNA K:

Thank you. On the WLTP side, my question was really not about your compliance with the new procedures. I am sure every vehicle in the market now is compliant, but I was wondering if you think there is any demand that was pulled forward, because we have seen very strong commercial vehicles sales figure out of Europe in general. So maybe, people were buying earlier so that they don't have to pay these higher prices for the vehicles after this transition dead line in September, just like we had

seen in the passenger cars last year. So I was wondering if there is more of a demand issue in the coming few months that people will not buy as many as they would otherwise because they had already purchased more than they otherwise would before this deadline in September 2019?

RENZI F: Okay. Maybe, in the... okay we have already registered in September a decline most probably due to some pre-purchasing that happened in August. So we cannot exclude that in the last three months there will be an effect due to the Euro 6d-TEMP transaction, so there is in particular for the diesel version an extra cost and this most probably could be reflected on the European markets. So this is a risk. But if you ask me which could be the impact and if the transition has been...has been let me say...registered all in September, I am not able to answer. In September we have seen now big decline of the market, but which will be the impact on the next 3 months I don't know. For sure, I don't see any but next years.

BERNA K: So you don't expect any negative impact for next year? Is that correct?

RENZI F: Yes, because also, let me say this purchasing is a bit different from the passenger car. So sometimes you cannot postpone your purchasing but, you can only delay for few months.

So... but, if you ask me if there will be an impact on the full year 2020, I believe not might be some impact in the next 3 months but not in 2020.

BERNA K: Okay. Thank you very much.

OPERATOR: Our next question is from our webcast participant Mr. Jacks Michael with Merrill Lynch.

Good afternoon around the time of the Frankfurt Auto Show the CEO of FAA...FCA commented that the Tipo Sedan would most likely be replaced with an SUV. With another 3 years of the contracts to go, what could the potential implications here be? How is FCA and Tofaş like to balance growing SUV demand in Europe with strong demand for Sedan's like Egea in the domestic market?

EROLDU C: Okay. But, actually it is early to discuss about, but in Turkey mainly for the Turkish market we would like to keep the Sedan also in the next... future. But, as I said we didn't start to discuss with FCA, this is a matter of future portfolio.

Regarding the Turkish market, the important versions are the Sedans and the SUVs, of course, in Europe the Sedan market is very limited, so it's a little bit complicated issue. But, as I...for the Turkish market we would like to continue with Sedan also after 2023, but this is not a final decision, but regarding the market needs for everybody who make a business in the Turkish market need to have a Sedan car and SUV car.

But, as I said, those are the early discussions as you also we are seeing the demand versus SUVs is increasing and this is a fact also in the Turkish market and we are the one of the important players of the Turkish market and we would like to follow the customer trends.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Mr. Renzi, for any closing comments. Thank you.

RENZI F: Okay, thank you, moderator. And I would like to thank you all the people that attended this conference call. I thank you for your question and also for your interest in our company, and I am looking-forward to speaking with you in the next conference call.