PhillipCapital Research
09.09.2026

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40% Upside Potential

Aselsan
Company Report

Listing Details and View	
Bloomberg Ticker	**ASELS TI**
View	**Outperform**
Price per Share, TRY	390,00
Target Price per Share, TRY	**546,60**
Upside	40,2%
Free Float	25,8%
Market cap, TRY mln	1.778.400
Market cap, USD mln	36.804
BIST-100 Index Weight	10,2%
BIST All Shares Index Weight	7,2%
Foreign Share	52,1%
Pension Funds Share	6,8%
Mutual Funds Share	5,6%

Source: Matriks, PhillipCapital Research
Price & Market Cap. as of 8-Sep

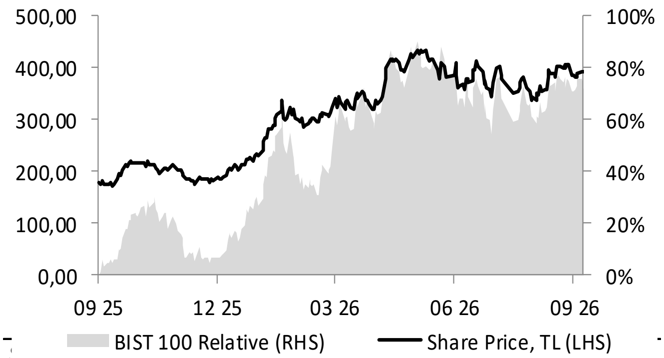
Key Financials, USD mn	2025A	2026E	2027E
Revenues (USD mn)	4.239	5.819	7.550
Gross Profit	1.349	1.839	2.401
Gross Margin	31,8%	31,6%	31,8%
EBITDA	1.112	1.612	2.190
EBITDA Margin	26,2%	27,7%	29,0%
EBIT	981	1.402	1.882
EBIT Margin	23,2%	24,1%	24,9%
Net Profit	703	1.321	1.755
Net Debt	328	885	1.573
Net Debt / EBITDA	0,3x	0,5x	0,7x
P/E	52,4x	27,9x	21,0x
EV/EBITDA	33,8x	23,3x	17,2x

Source: Company Data, PhillipCapital Research

Shareholder Structure	Shares (million)	Rate (%)
TSKGV	3.383	74,2%
Free float / other	1.177	25,8%
Total	**4.560**	**100,0%**

Source: Finnet

Free Float	0	0,0%



	1m	3m	6m	1y
Nominal	10,2%	6,0%	16,9%	125,1%
Relative	5,5%	2,0%	3,9%	63,3%
Trd. Vol. USD mln	274,0	280,6	247,0	232,5

Source: BIST, Finnet

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We initiate coverage of ASELSAN (ASELS) with a 12-month target price of TL 546.6 per share and an "Outperform" rating. Our target price implies 40.2% upside from the 8 September 2026 closing price.

We think ASELSAN's revenue visibility is supported by delivery pace. Backlog reached USD 23.2 billion as of 2Q26, up 45% over the past year and equal to 4.9x last-twelve-month revenue. Based on the aging schedule disclosed by the company, we expect 65% of the current backlog to be delivered by the end of 2028. We estimate that USD 4.9 billion of our 2026 revenue forecast will come from orders already in the book. We also think the EUR 1.47 billion air defense serial production contract signed with the Presidency of Defence Industries of the Republic of Türkiye in July 2026 will further strengthen current revenue visibility.

We think scale effect will be the main driver of margin expansion. EBITDA margin improved by 120 basis points in 1H26 to 26.3%. We forecast EBITDA margins of 27.7% and 30.4% for 2026 and 2028, respectively. The company's 2026 guidance stands above 24%. Our 2026 gross margin assumption of 31.6% is close to the realized levels of the past two years. We think the decline in operating expenses as a share of revenue will support margins. We also expect the change in revenue recognition to support this trend. The share of revenue recognized under over-time project accounting declined from 69% a year ago to 55% in 1H26.

We expect capital expenditures as a share of revenue to decline from around 25% in 2026-27 to 20% in 2030 and 12% in 2035. We forecast cumulative free cash flow of around negative USD 0.34 billion over 2H26-2029, approaching breakeven in 2029 and turning clearly positive after 2030 to reach USD 3.9 billion in 2035. Net debt/EBITDA stands at 0.58x in 2Q26. Despite the heavy investment period, we expect this ratio to remain at 0.63x in 2028.

Our valuation thesis is based on rerating potential. We calculate our target price using 25% DCF and 75% peer multiples analysis. The DCF and peer analyses indicate valuations of TL 385.1 and TL 600.4, respectively. Given the gap between the two methods, we calculate that around 82% of our target market capitalization comes from the peer analysis. We calculate that ASELSAN trades at discounts of around 8.9% and 8.5% to the international peer median on 2026E and 2027E, respectively. We think the wider 32-37% discount range on the P/E side is largely driven by the 2.75% effective tax rate.

Key risk factors:
i) exposure to a possible repricing in global defense stocks, as around 82% of the target price comes from peer multiples,
ii) the timing of positive free cash flow being pushed out if the investment program is extended or working capital needs increase,
iii) the concentration of 49.7% of backlog in a single public-sector buyer.

In conclusion, we think the revenue visibility provided by the order book, scale-driven margin expansion and a normalizing investment pace will be reflected in the growth profile and multiples over time. In this framework, we assign an "Outperform" rating with a target price of TL 546.6.

Financial Summary

Financial Statements

	2025A	2026E	2027E	2028E
Income Statement				
Revenue	**4,239**	**5,819**	**7,550**	**8,772**
Gross Profit	1,349	1,839	2,401	2,807
EBITDA	**1,112**	**1,612**	**2,190**	**2,663**
Depreciation & Amortization	(131)	(210)	(308)	(439)
EBIT	**981**	**1,402**	**1,882**	**2,224**
Net Financial Expense	(356)	(44)	(78)	(98)
Profit Before Tax	625	1,359	1,805	2,126
Tax	78	(37)	(50)	(58)
Net Income	**703**	**1,321**	**1,755**	**2,067**
Cash Flow				
Cash Flow from Operations	**1,121**	**793**	**1,203**	**2,130**
Capital Expenditures	(886)	(1,455)	(1,812)	(1,974)
Free Cash Flow (CFO - Capex)	**235**	**(662)**	**(609)**	**156**
Dividends Paid	(21)	(57)	(79)	(263)
Balance Sheet (Period-End)				
Cash and Cash Equivalents	683	566	676	614
Trade Receivables + Contract Assets	2,978	3,986	5,171	6,008
Inventories	1,730	2,345	3,033	3,514
Non-Current Assets (Net)	2,772	4,017	5,521	7,056
Total Assets	**10,135**	**13,320**	**17,012**	**19,946**
Financial Debt	1,011	1,451	2,249	2,294
Net Debt	**328**	**885**	**1,573**	**1,680**
Equity	**5,913**	**7,604**	**9,280**	**11,084**

Growth, Margins and Per Share Data

	2025A	2026E	2027E	2028E
YoY Growth				
Revenue	26.4%	37.3%	29.7%	16.2%
EBITDA	31.5%	45.0%	35.8%	21.6%
EBIT	30.1%	42.9%	34.2%	18.1%
Net Income	64.4%	88.0%	32.8%	17.8%
Margins and Ratios				
Gross Margin	31.8%	31.6%	31.8%	32.0%
EBITDA Margin	26.2%	27.7%	29.0%	30.4%
EBIT Margin	23.2%	24.1%	24.9%	25.4%
Net Income Margin	16.6%	22.7%	23.2%	23.6%
ROE (Avg.)	14.2%	19.6%	20.8%	20.3%
ROA (Avg.)	8.3%	11.3%	11.6%	11.2%
Net Debt / Equity	5.5%	11.6%	17.0%	15.2%
Capex / Revenue	20.9%	25.0%	24.0%	22.5%
Net Debt / EBITDA	0.30x	0.55x	0.72x	0.63x
Per Share (TL)				
Net Income	**6.62**	**14.94**	**22.51**	**30.01**
Dividends Paid	0.23	0.65	1.02	3.82
Book Value	55.70	85.96	119.05	160.92

Forecast Assumptions

	2025A	2026E	2027E	2028E
Period-End Backlog (USD mn)	**20,368**	**26,042**	**33,214**	**41,109**
New Orders (USD mn)	9,573	11,639	14,723	16,667
Book-to-Bill	**2.26x**	**2.00x**	**1.95x**	**1.90x**
Backlog / Revenue	**4.81x**	**4.47x**	**4.40x**	**4.69x**
Revenue by Source (USD mn)	**4,239**	**5,819**	**7,550**	**8,772**
from existing backlog	2,250	4,888	5,092	4,074
from prior-year orders	0	0	1,280	3,365
from same-year orders (t0)	4,239	931	1,178	1,333
Export Share	15.3%	17.5%	19.0%	21.0%
Gross Margin Assumption	31.8%	31.6%	31.8%	32.0%
Capex / Revenue	20.9%	25.0%	24.0%	22.5%
Effective Tax Rate	(12.5%)	2.8%	2.8%	2.8%
USD/TRY (Year-End)	42.96	51.55	58.50	66.20

Valuation Metrics

	2025A	2026E	2027E	2028E
EV / Sales	8.9x	6.5x	5.0x	4.3x
EV / EBITDA	33.8x	23.3x	17.2x	14.1x
P/E	52.4x	27.9x	21.0x	17.8x
P/BV	6.2x	4.8x	4.0x	3.3x
Free Cash Flow Yield	0.6%	(1.8%)	(1.7%)	0.4%
Dividend Yield	0.1%	0.2%	0.2%	0.7%

Target Price Bridge

DCF Value (TL/share)	**385.1**
Multiples-Based Value (TL/share)	**600.4**
DCF Weight	**25.0%**
Multiples Weight	**75.0%**
12M Target Price (TL)	**546.6**
Terminal Value / EV	**80.7%**
WACC / Terminal Growth	**11.4% / 4.8%**

Company Snapshot

Bloomberg Ticker	**ASELS TI**
Rating	**Outperform**
Share Price (TL)	**390.0**
12M Target Price (TL)	**546.6**
Upside Potential	**40.2%**
Market Cap (TL mn)	**1,778,400**
Market Cap (USD mn)	**36,804**
Enterprise Value (USD mn)	**37,579**
Net Debt, 2Q26A (USD mn)	**737.0**
Shares Outstanding (mn)	**4,560**
Free Float	**25.8%**
3M Avg. Daily Volume (USD mn)	**278.6**
BIST-100 Weight	**10.3%**
Pricing Date	**08.09.2026**

Source: Company financial statements; PhillipCapital Research estimates. 2025 net financial expense includes the net monetary position effect. The 2025 effective tax rate is negative due to net deferred tax income. Valuation multiples are calculated using USD-denominated market values and financial estimates; per-share data are presented in TL.

2. Company and Business Model

Strong position in the defense ecosystem

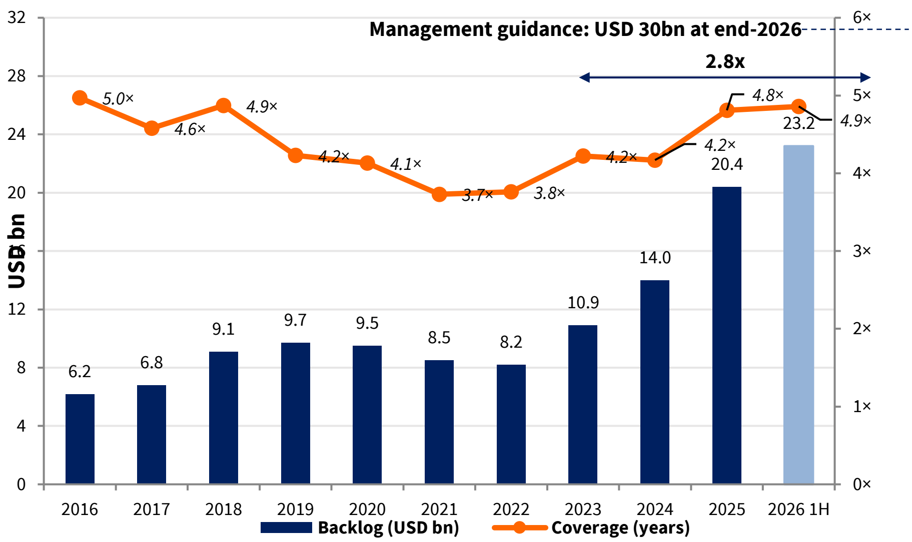
ASELSAN is Türkiye's largest defense electronics company, with the Turkish Armed Forces Foundation as its controlling shareholder with a 74.2% stake. The company offers a broad portfolio of products and advanced technologies, mainly in communications, radar and electronic warfare, electro-optics, avionics and air defense systems. With revenue of USD 4.2bn in 2025, ASELSAN moved from 43rd to 40th place in the 2026 Defense News Top 100 list, becoming the first Turkish defense company to enter the global top 40. Defense revenue used in the ranking also increased by 26% in 2025 to USD 4.5bn (Defense News Top 100).

We think ASELSAN's supplier role, providing electronic content across different platforms, places the company in an advantageous position within the defense ecosystem. Its broad product portfolio limits the financial impact of delays in a single program, while allowing the company to benefit from higher defense spending across different platforms and programs. The public authority's indication of a domestic content ratio of around 80% also supports the company's strong position in the domestic market.

High backlog provides strong revenue visibility

Backlog increased from USD 8.2bn at the end of 2022 to USD 23.2bn as of 2Q26 (+45% YoY). The company received USD 4.9bn of new orders in 1H26 and, after the balance sheet date, signed a EUR 1.47bn air defense serial production contract (approximately USD 1.68bn), disclosed on KAP on 10 July. Management points to USD 30bn by the end of 2026. In our model, we assume a 2.0x book-to-bill ratio for 2026 and forecast year-end backlog of USD 26.0bn.

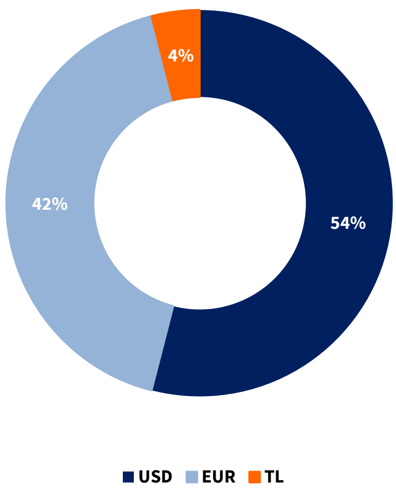
Chart 1: Backlog and Revenue Coverage (USD bn, years)



Source: ASELSAN 1H26 Investor Presentation; PhillipCapital Research

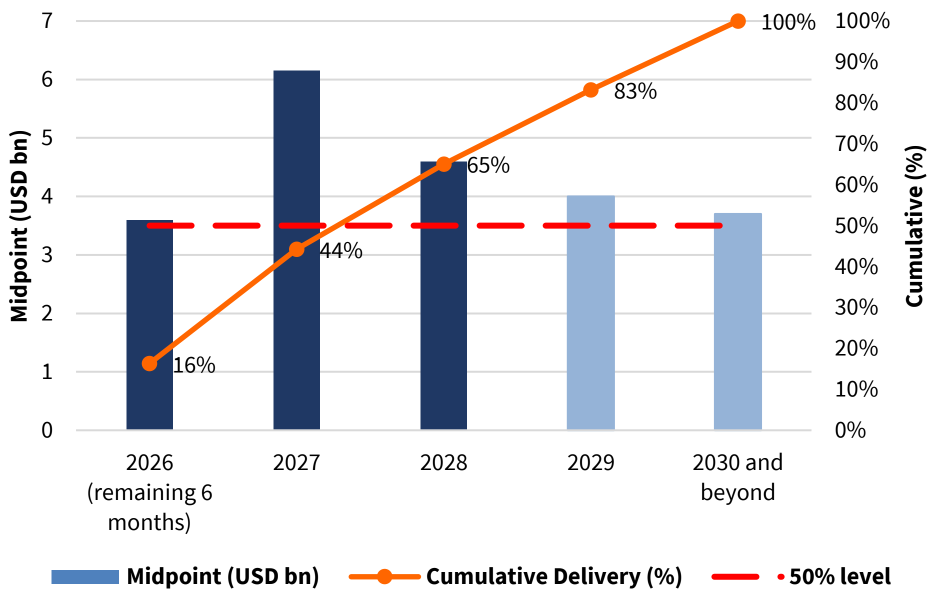
Of the backlog, 54% is denominated in USD, 42% in EUR and 4% in TL. With 96% of current orders denominated in foreign currencies, revenue visibility is also supported from an FX perspective. Based on the delivery schedule disclosed by the company, we expect the current backlog to convert into revenue over an average of 3.5-4 years. Orders scheduled for delivery in 2027-28 under the company's 2Q26 delivery schedule provide strong revenue visibility. In our model, we estimate the revenue contribution from the existing backlog at approximately USD 5.1bn in 2027 and USD 4.1bn in 2028.

Chart 2: Backlog by Currency (%)



Source: ASELSAN 1H26 Investor Presentation

Chart 3: Backlog Delivery Schedule (USD bn)



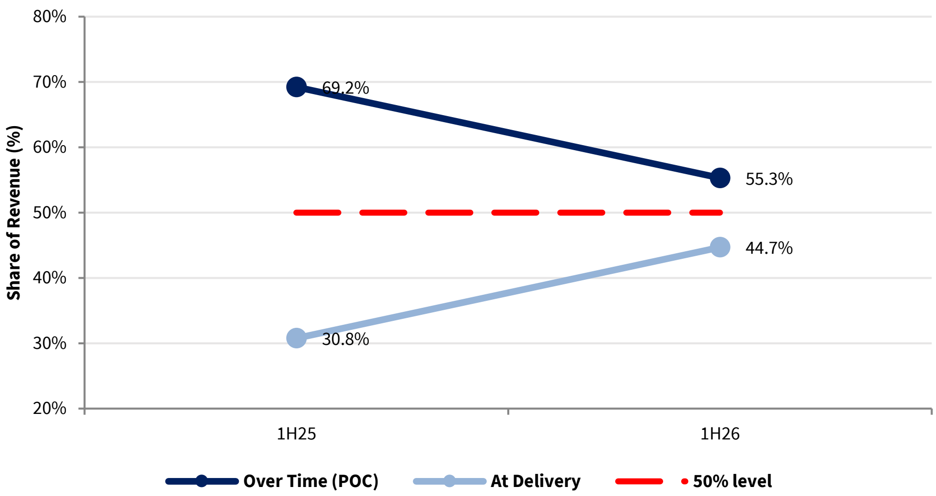
Source: ASELSAN 1H26 Investor Presentation

We therefore think the key focus for ASELSAN is how quickly the existing backlog converts into revenue. While we see continued growth in the order book as important, we expect the delivery pace of the existing backlog to determine revenue growth in the near term.

Project development and serial production are strengthening together

We see a recent change in ASELSAN's business model in terms of both revenue recognition and production volume. A year ago, 69% of revenue was recognized over time under project accounting (POC) and 31% at delivery, while this mix shifted to 55%/45% in 1H26. The company targets more than 400 thousand product deliveries in 2026. We think the change in revenue recognition and higher delivery volumes indicate that ASELSAN is moving from project-based production toward higher-volume serial production.

Chart 4: Revenue Recognition Mix (%)



Source: Company financial presentation dated 30.06.2026, Note 14

With the increasing weight of serial production, we expect contract-based deliveries to accelerate and contribute positively to revenue. We think the higher delivery pace will support revenue growth in the coming period.

This transformation requires high capital expenditures. We expect capex, which stood at TL 38.9bn in 2025, to rise above TL 50bn in 2026 in line with company guidance. The first phase of Oğulbey Technology Base, one of the major investments under the program, became operational in 3Q26. We think developments related to the new production area will contribute positively to year-end revenue. We expect high capex to weigh on free cash flow in the near term. We expect these investments to support growth after 2027 through higher production capacity and delivery capability.

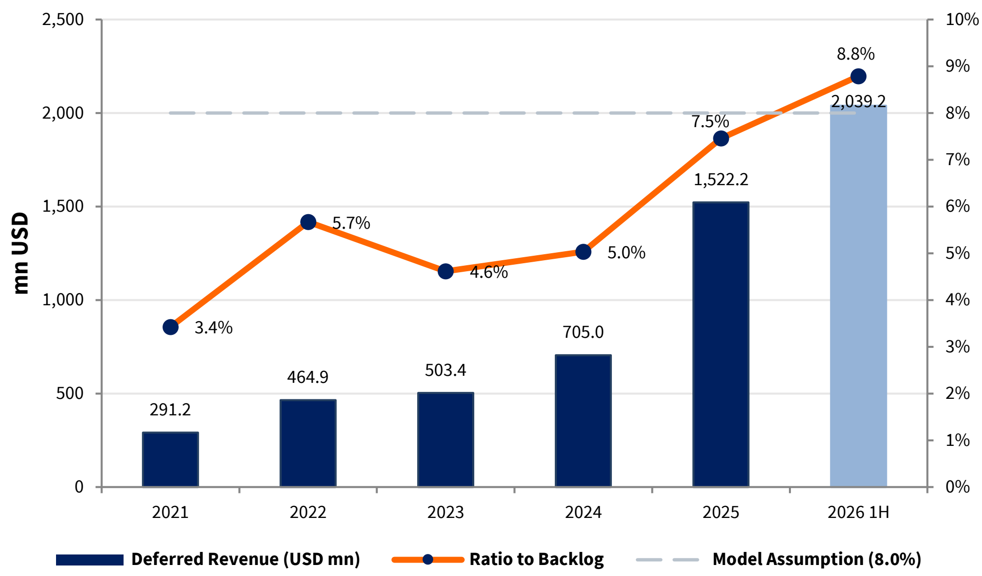
Contract structure supports the margin outlook

Domestic contracts are predominantly signed through the Presidency of Defence Industries of the Republic of Türkiye, with structures that include price adjustment and FX protection. We think these mechanisms limit a significant part of cost inflation and FX risk. The scope of protection may vary by contract. At the same time, the fact that a significant portion of costs is denominated in TL can put pressure on margins during periods of real appreciation. Despite this, we see that the effect has not been reflected materially in the company's gross margin and that the margin structure around 32% has been maintained. We also think the company's focus on efficiency-enhancing measures supports the margin outlook.

We think the current contract structure supports margins. Gross margin increased from around 27% to the 32% range between 2023 and 2025, a period of high inflation. We expect the margin outlook in the coming period to be determined by the existing contract base, product mix and scale benefits from serial production.

Two factors stand out on the financing side. Defense spending in Türkiye is financed through both the general budget and the Defence Industry Support Fund, which has revenues defined by law. In addition, customer advances enter the balance sheet when contracts are signed. As of 2Q26, the deferred revenue balance corresponds to around 9% of backlog. We therefore expect customer advances to fund a significant portion of the higher working capital requirement that comes with growth.

Chart 5: Deferred Revenue and Ratio to Backlog (USD mn, %)



Source: Company financial statements; PhillipCapital Research

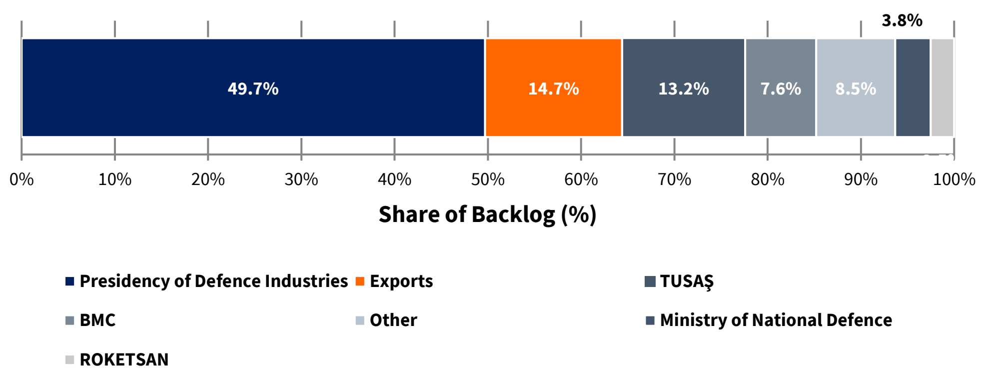
Domestic focus continues, exports are growing

Exports account for around 17% of total revenue as of 1H26. Management targets this ratio to reach 30% by 2030. ASELSAN being one of five contractors selected by NSPA (NATO Support and Procurement Agency) for its modular air defense concept study supports the growth potential on the export side. We also view the USD 410mn contract signed at the end of 2025 to supply electronic warfare systems to NATO member Poland as an important development in terms of ASELSAN's efforts in NATO and EU member countries turning into actual contracts.

We view ASELSAN's inclusion on the same shortlist as established European prime contractors in the NSPA process, together with the Poland contract, as developments supporting the company's competitive position in NATO and EU markets.

The high weight of public-sector customers makes the receivables and contract asset cycle sensitive to public orders and payment schedules. We expect a higher export share to support customer and geographic diversification over the long term. We view management's 30% export target as upside potential to our current forecasts.

Chart 6: Backlog by Customer (%)



Source: ASELSAN 1H26 Investor Presentation

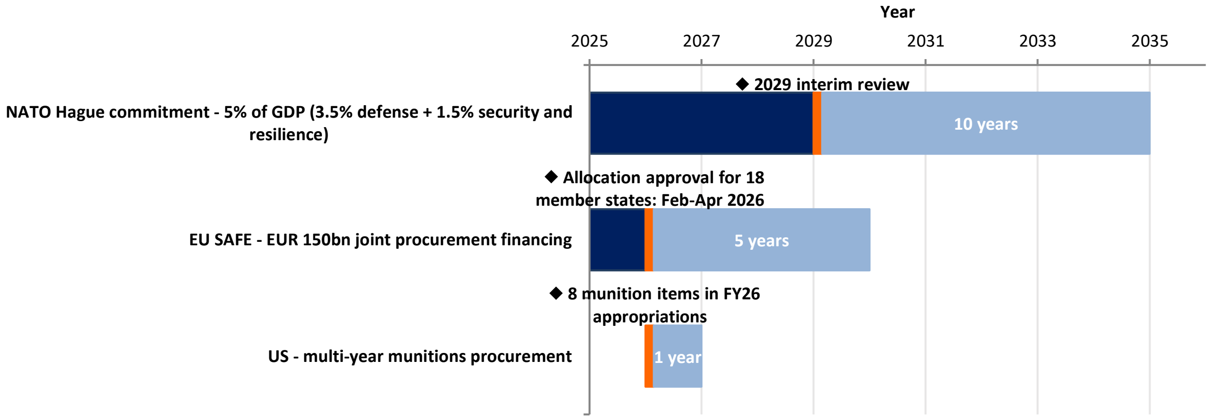
3. Sector Outlook

Defense spending is entering a long-term growth cycle

Global defense spending reached USD 2.9tn in 2025, with real growth of 2.9%. The cumulative increase over the past decade reached 41%. In 2025, spending outside the US grew faster, at 9.2% (SIPRI).

We see the conversion of higher defense spending into long-term commitments as important as the increase in spending itself. NATO members adopted a target at the Hague Summit in June 2025 to spend 5% of GDP on defense and security by 2035. Core defense spending accounts for 3.5% of this target, while security and resilience investments account for 1.5%. On the EU side, the SAFE program provides EUR 150bn of joint procurement financing.

Chart 7: Multi-Year Defense Spending Commitments (2024-2035)



Source: NATO Hague Summit Declaration (June 2025); European Commission SAFE Regulation; US FY2027 defense budget request documents; PhillipCapital Research

We therefore expect the increase in defense spending to be supported by multi-year programs in the coming years. We view the Medium-Term Program (MTP), announced on 6 September 2026, positively in terms of supporting the approach of creating long-term orders and demand in the defense industry. We think multi-year commitments will support order visibility and returns on capacity investments for defense companies.

Supply capacity is lagging demand

While demand is increasing, we see that production capacity in the defense industry is not growing at the same pace. US munitions procurement demand rises from USD 26.8bn in FY2026 to USD 76.3bn in FY2027 (+185%). Eight separate framework agreements have been established to shift critical munitions to a multi-year procurement model. In the US budget request, THAAD interceptor procurement rises from 55 units in FY2026 to 857 units in FY2027, PAC-3 MSE procurement from 357 to 3,203 and AMRAAM procurement from 464 to 1,811.

Chart 8: US Munitions Procurement Demand (2026-2027 / USD bn)

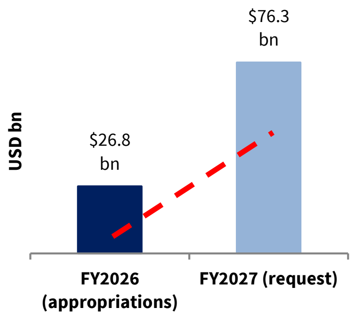
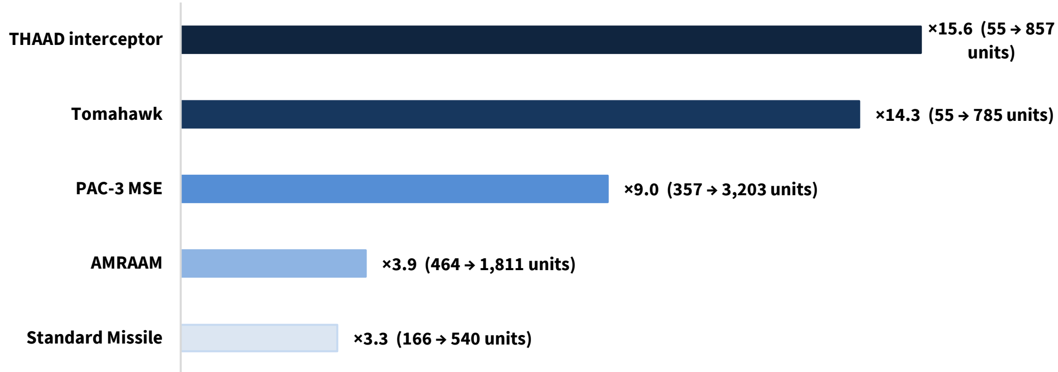


Chart 9: Missile Procurement in the US Budget Request, FY2026-2027



Source: US FY2027 defense budget request documents

In Europe, delivery times are measured in years, particularly for air defense systems. Demand exceeding production capacity supports order visibility and pricing power for existing manufacturers, while also creating market share opportunities for new suppliers that can increase capacity.

We think the Turkish defense industry is well positioned in this environment. We see the main advantage as the ability to offer proven systems with shorter delivery times rather than the cost structure itself.

Shift toward layered air defense architecture

The diversification of aerial threats and the proliferation of lower-cost systems are shifting air defense architecture from single-system structures toward multi-layered structures. This requires sensors, radars, interceptors, command and control, and electronic warfare elements to operate together within the same network.

Türkiye's ÇELİKKUBBE architecture stands out as the domestic counterpart of this shift. ASELSAN is involved in key electronic components of the architecture, particularly sensors, radar, electronic warfare, and command and control. We also view the EUR 1.47bn serial production contract announced in July 2026 as an important development showing this investment theme translating into a tangible order.

Potential for higher defense spending in Türkiye

According to SIPRI data, Türkiye's defense spending reached USD 30bn in 2025, while defense spending stood at 1.9% of GDP. The gap between the current level and NATO's 3.5% core defense spending target set at the Hague Summit points to long-term procurement potential.

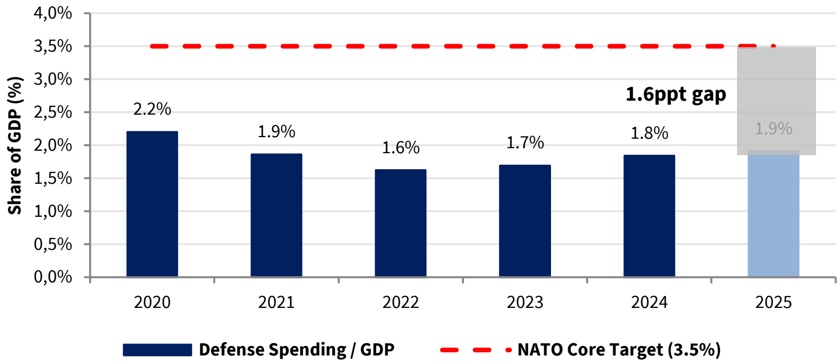
MTP supports higher defense spending

The Medium-Term Program (2027-2029), announced on 6 September 2026, sets out the budget outlook for higher defense spending. Under the program, the 2027 appropriation proposal ceiling for general-budget institutions rises by 32% in nominal terms to TL 24.9tn, while the Ministry of National Defence's ceiling increases from TL 822.9bn to approximately TL 1.5tn. Defense spending therefore grows faster than the overall budget.

In the MTP, the defense industry is among the priority strategic areas under economic security and resilience, together with artificial intelligence, semiconductors and healthcare. In the public procurement section, the long-term order and demand creation approach used in the defense industry is planned to be extended to areas such as rail systems, energy equipment and electronics. We view the support for the multi-year order model in public policy as positive for the sector.

At the same time, personnel expenses account for more than half of the Ministry of National Defence budget. In addition, a significant portion of ASELSAN's orders is financed through the Presidency of Defence Industries and the Defence Industry Support Fund (SSDF). We view the increase in the budget as an indicator supporting defense procurement appetite.

Chart 10: Türkiye Defense Spending / GDP and NATO Target (%)



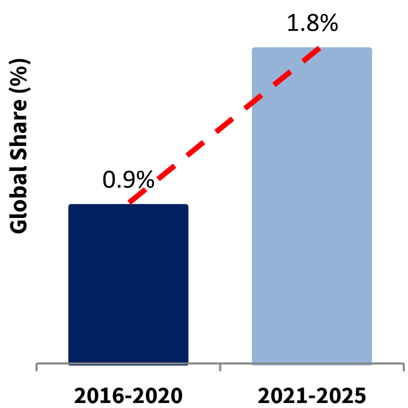
Source: SIPRI; PhillipCapital Research

The financing of defense procurement through the defense budget and the SSDF, which has revenues defined by law, supports the continuity of programs. The growing order books of sector companies show that higher defense spending is also translating into procurement volumes.

The export market is growing as competition increases

Türkiye's defense and aerospace exports reached USD 11bn on a last-twelve-month basis as of June 2026, while exports increased 29.5% YoY in 1H26 (SSB). According to SIPRI data, Türkiye's share of global arms exports increased from 0.9% in 2016-20 to 1.8% in 2021-25, moving the country to 11th place. The expansion of exports into Southeast Asia and Eastern Europe, in addition to the Gulf, points to a widening potential market for Turkish defense companies. In particular, defense spending of around USD 125bn by Gulf countries in 2025 represents a significant opportunity for companies (IISS).

Chart 11: Türkiye's Share of Global Arms Exports (%)



Source: SIPRI (March 2026)

We expect higher demand to support market share gains for Turkish defense companies. We think competition with European and Asian manufacturers will continue, particularly in air defense systems. Asian manufacturers having won more than USD 9bn of air defense contracts in the Gulf since 2022 shows that competition in the region remains strong. In this environment, we think cost, delivery capability and local production opportunities will be key to Turkish companies gaining market share.

We view export growth as additional upside to our current forecasts. The fact that 96% of the existing backlog is denominated in USD and EUR, together with the company's investments to increase production capacity, supports strong revenue visibility. An increase in the export share to management's 30% target for 2030 could create additional growth potential above our forecasts.

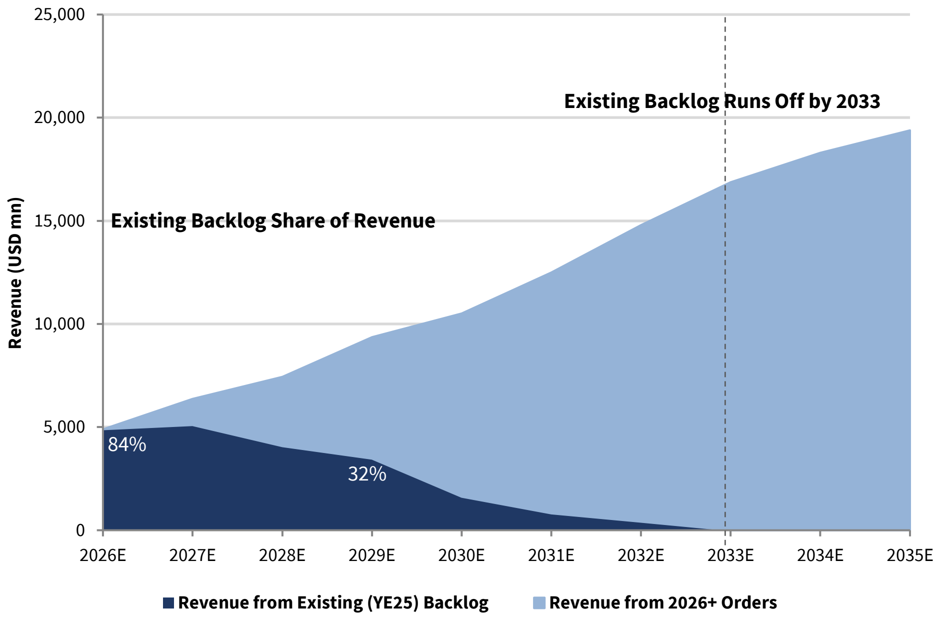
4. Financial Outlook and Forecasts

Revenue growth is supported by the order book

We build our revenue forecasts based on the order book and delivery schedule. We model the USD 23.2bn backlog as of 2Q26 converting into revenue according to the delivery schedule, while new orders contribute to growth in the following years. We expect the book-to-bill ratio to gradually decline from 2.0x to 1.8x over 2026-29, followed by a more pronounced normalization after 2030.

We forecast annual USD-based growth of 16-38% through 2029. We expect strong growth to continue over this period, supported by the intensive delivery schedule of existing contracts and the contribution from new orders. We forecast growth to decline to 10-18% in 2030-33, 5-8% in 2034-35 and 4.8% in the terminal period.

Chart 12: Revenue Contribution from Backlog and New Orders



Source: PhillipCapital Research estimates

We maintain our 2026 revenue forecast at USD 5.8bn and forecast 29% real growth. The 25% real growth recorded in 1H26, together with the company's 2026 guidance of more than 10% real revenue growth and an EBITDA margin above 24%, supports our forecast.

Summary Forecasts

	2025A	2026E	2027E	2028E	2029E	2030E	2035E
Revenue	**4,239**	**5,819**	**7,550**	**8,772**	**10,942**	**12,113**	**21,259**
Growth, %		*37.3%*	*29.7%*	*16.2%*	*24.7%*	*10.7%*	*5.5%*
EBITDA	**1,112**	**1,612**	**2,190**	**2,663**	**3,425**	**3,898**	**7,123**
EBITDA Margin, %	*26.2%*	*27.7%*	*29.0%*	*30.4%*	*31.3%*	*32.2%*	*33.5%*
EBIT	**981**	**1,402**	**1,882**	**2,224**	**2,832**	**3,096**	**5,643**
EBIT Margin, %	*23.2%*	*24.1%*	*24.9%*	*25.4%*	*25.9%*	*25.6%*	*26.5%*
Net Income	**703**	**1,321**	**1,755**	**2,067**	**2,655**	**2,878**	**5,337**
Net Income Margin, %	*16.6%*	*22.7%*	*23.2%*	*23.6%*	*24.3%*	*23.8%*	*25.1%*
Capital Expenditures	**886**	**1,455**	**1,812**	**1,974**	**2,353**	**2,423**	**2,551**
Capital Expenditures / Revenue, %	*20.9%*	*25.0%*	*24.0%*	*22.5%*	*21.5%*	*20.0%*	*12.0%*
Free Cash Flow to Firm (FCFF)[1]	**-56**	**-65**	**-533**	**252**	**11**	**1,159**	**3,924**

Source: Company financial statements; PhillipCapital Research estimates

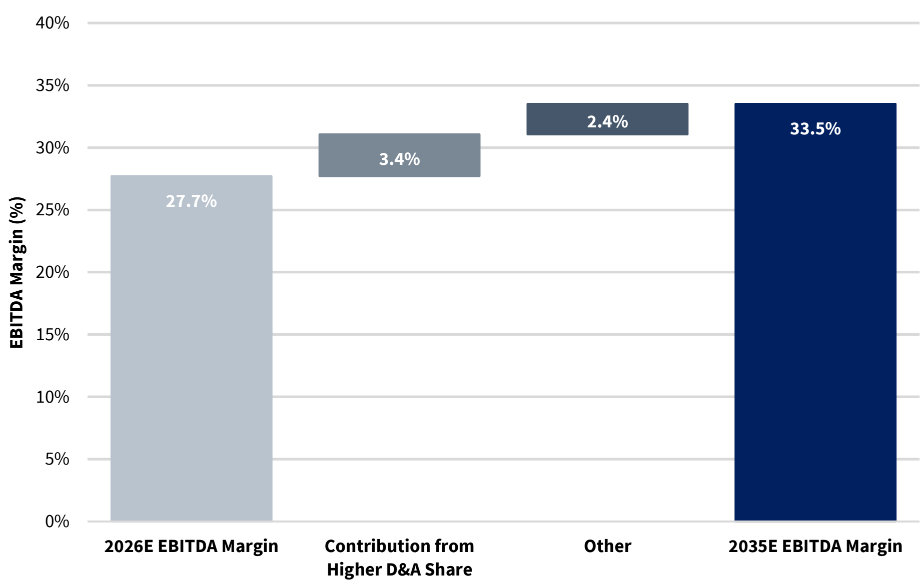
[1] 2026 figure covers 3Q26+4Q26; other figures in the table are on a full-year basis.

Margins: we expect current levels to be maintained

We forecast gross margin at 31.6% in 2026 and 32.0% after 2030. Gross margin remaining in the 31.5-31.8% range in 2024-25 and reaching 32.5% in 2Q26 indicate that current margin levels can be maintained. Accordingly, we expect limited gross margin improvement after 2026.

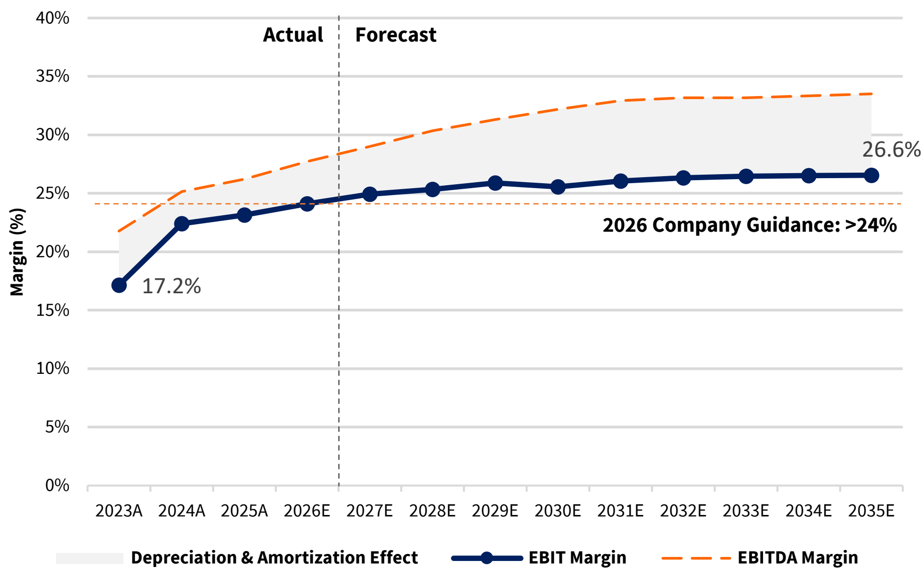
We expect EBITDA margin to increase from 27.7% in 2026 to the 33-34% range in 2035. We think higher production volumes and scale effects will support operating profitability. At the same time, we expect the depreciation burden from capitalized development expenditures to increase in the coming years as the investment program expands. We therefore expect the improvement in EBITDA margin to translate more modestly into EBIT margin. We expect EBIT margin to increase from 24.1% to 26.5% over the same period, with the improvement occurring gradually.

Chart 13: Drivers of EBITDA Margin Expansion



Source: PhillipCapital Research estimates

Chart 14: EBITDA and EBIT Margin Development



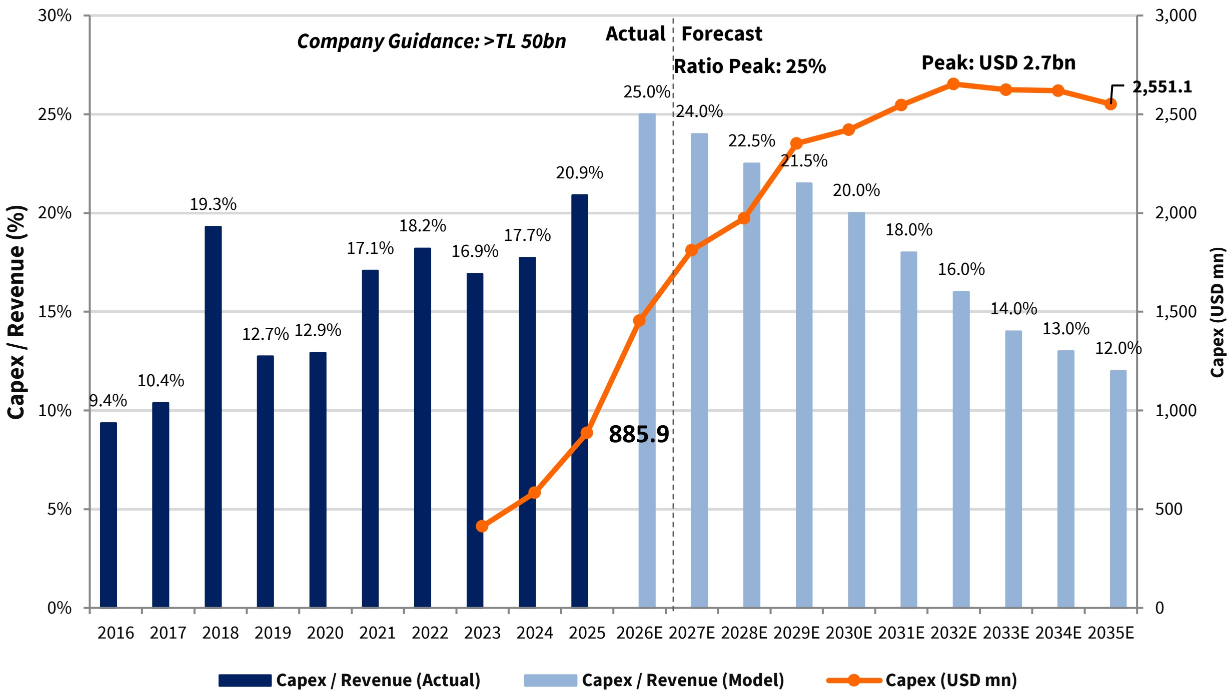
Source: PhillipCapital Research estimates

Investment pace remains high in the near term

We expect capital expenditures as a share of revenue to remain around 25% in 2026-27, before declining to 20% in 2030 and 12% in 2035. We expect the high investment pace to continue over 2026-30, followed by a gradual normalization in capital expenditures as investment programs are completed.

Although capital expenditures as a share of revenue decline to 12% in 2035, we expect absolute capex to remain high due to the company's growing operational scale. We therefore think the impact of normalizing capital expenditures on free cash flow will be gradual.

Chart 15: Capital Expenditures / Revenue and Absolute Capex



Source: Company financial statements; PhillipCapital Research estimates

We expect the high investment pace to weigh on free cash flow in the near term, with cash flow recovering as investments are completed. The company's 195% YoY increase in infrastructure investments for capacity and serial production to USD 323mn in 1H26, excluding R&D expenditures, shows that investment spending remains high. We expect higher production capacity to support revenue growth over the medium term.

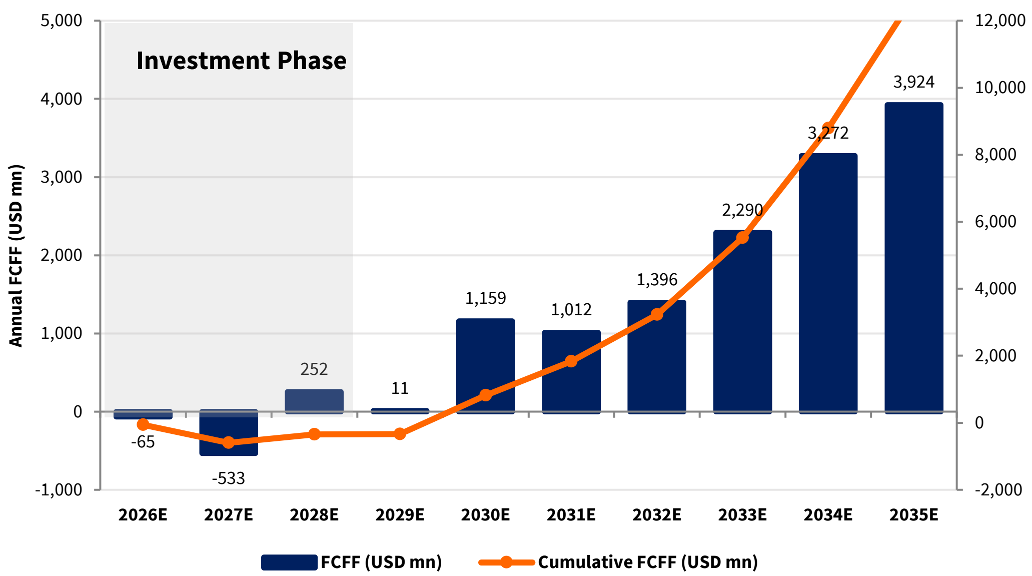
We expect the depreciation rate to increase from 6% to 8.5% as investments become operational. Accordingly, we also expect depreciation expenses to increase in the coming period.

Working capital and free cash flow

Given ASELSAN's working capital-intensive business model, we expect revenue growth to also increase working capital requirements. In our model, we keep working capital drivers close to current levels over 2026-28 and assume limited normalization after 2029. We forecast NWC/revenue to decline from 47.7% in 2025 to 46.5% in 2035. We estimate that approximately USD 7.6bn of cash will be tied up in working capital over 2H26-2035. We therefore do not assume a material improvement in working capital efficiency in our long-term forecasts.

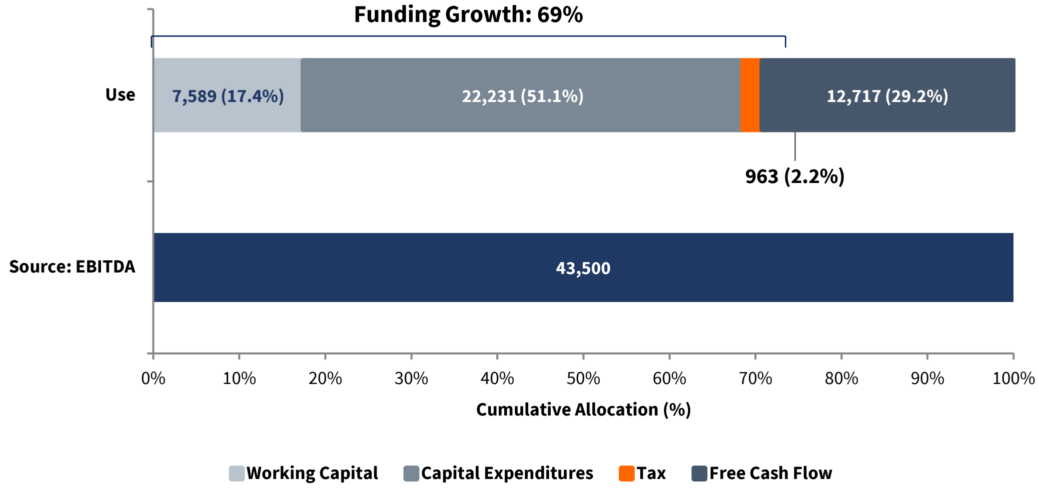
We expect free cash flow to remain around breakeven over 2H26-2029 and to be cumulatively negative by approximately USD 0.34bn over this period. We expect free cash flow to approach breakeven in 2029, turn clearly positive after 2030 and reach approximately USD 3.9bn in 2035.

Chart 16: Free Cash Flow to Firm and Cumulative Trend (USD mn)



Source: PhillipCapital Research estimates. 2026 figure covers 3Q26+4Q26.

Chart 17: 2H26-2035 Cumulative Use of EBITDA (USD mn)



Source: PhillipCapital Research estimates

We forecast a low effective tax rate

We assume an effective tax rate of 2.75% over the forecast period. Existing tax incentives, together with the company's area of activity and R&D investments, support this assumption. The legal term of the existing tax exemptions expires at the end of 2028. If the incentives continue, we think the low effective tax rate can be maintained over the long term, supporting our net income and free cash flow forecasts.

5. Valuation

We calculate our 12-month target price using 25% DCF and 75% international peer multiples analysis. We think the DCF is highly sensitive to terminal-period assumptions due to the long investment cycle. We view the multiples analysis as better reflecting the rerating trend in the defense sector and current market pricing. We therefore assign a higher weight to the multiples analysis in our 12-month target price.

DCF

We perform our DCF calculation using USD-based cash flows. We calculate free cash flow by deducting the change in working capital, capital expenditures and tax calculated on operating profit from EBITDA, and model 2026-2035 as the explicit forecast period.

We use a 6.75% risk-free rate. We use the yield on Türkiye's USD-denominated government bonds as the risk-free rate in the discount rate and reflect country risk through this rate. We do not add a separate country risk premium.

We use a 5.0% equity risk premium and a beta of 0.97, calculated using ASELS's two-year weekly returns against XU100. With these assumptions, we calculate the cost of equity at 11.62% and WACC at 11.36%, given the approximately 4.1% weight of debt.

We assume 4.8% USD-based growth in the terminal period. We expect this growth to consist of long-term inflation and limited real growth. We keep capital expenditures at 12% of revenue. The approximately 6.6ppt gap between WACC and terminal growth supports a conservative approach to the terminal value calculation. However, as approximately 81% of enterprise value comes from the terminal value, we also present the valuation impact of different growth and cost of capital scenarios.

In the DCF bridge, we deduct USD 737mn of net debt and USD 38mn of minority interest as of 2Q26 from enterprise value, roll the equity value forward to the 12-month target date at the cost of equity and convert it into TL using our 12-month forward exchange rate. Our DCF target is TL 385.1.

DCF - Free Cash Flow Projection

USD mn	2025	2H26E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Revenue	**4,239**	**3,891**	**7,550**	**8,772**	**10,942**	**12,113**	**14,144**	**16,581**	**18,743**	**20,154**	**21,259**
Growth, %	*26.4%*	*—*	*29.7%*	*16.2%*	*24.7%*	*10.7%*	*16.8%*	*17.2%*	*13.0%*	*7.5%*	*5.5%*
EBIT	**981**	**990**	**1,882**	**2,224**	**2,832**	**3,096**	**3,685**	**4,366**	**4,958**	**5,342**	**5,643**
EBIT Margin, %	*23.2%*	*25.5%*	*24.9%*	*25.4%*	*25.9%*	*25.6%*	*26.1%*	*26.3%*	*26.5%*	*26.5%*	*26.5%*
EBITDA	**1,112**	**1,105**	**2,190**	**2,663**	**3,425**	**3,898**	**4,656**	**5,500**	**6,220**	**6,719**	**7,123**
EBITDA Margin, %	*26.2%*	*28.4%*	*29.0%*	*30.4%*	*31.3%*	*32.2%*	*32.9%*	*33.2%*	*33.2%*	*33.3%*	*33.5%*
(-) Change in Working Capital	255	467	860	376	984	231	997	1,331	1,170	680	493
(-) Capital Expenditures	886	676	1,812	1,974	2,353	2,423	2,546	2,653	2,624	2,620	2,551
(-) Tax	27	27	52	61	78	85	101	120	136	147	155
Free Cash Flow to Firm (FCFF)	**(56)**	**(65)**	**(533)**	**252**	**11**	**1,159**	**1,012**	**1,396**	**2,290**	**3,272**	**3,924**
Discount Period (years)	n.a.	0.32	1.32	2.32	3.32	4.32	5.32	6.32	7.32	8.32	9.32
Discount Factor	n.a.	0.97	0.87	0.78	0.71	0.64	0.57	0.52	0.47	0.42	0.38
Discounted FCFF	**n.a.**	**(63)**	**(463)**	**196**	**7**	**728**	**571**	**707**	**1,041**	**1,336**	**1,439**

Source: Company financial statements; PhillipCapital Research estimates. The 2H26E column covers 3Q26 and 4Q26; the valuation starts from the 30.06.2026 balance sheet. The 2025 column is shown for reference purposes.

DCF Value Bridge

USD mn	
PV of Forecast Period	5,500
PV of Terminal Value	22,982
Terminal Value Share	80.7%
Enterprise Value	**28,482**
(-) Net Debt (2Q26A)	737
(-) Minority Interest	38
(+) Associates	0
Equity Value	**27,707**
12M Forward (× 1+Ke)	30,926
Shares Outstanding (mn)	4,560
Target per Share (USD)	6.78
12M Forward USD/TRY	56.8
DCF Target Price (TL)	**385.1**

WACC Components

USD mn	
Risk-Free Rate	6.8%
Equity Risk Premium	5.0%
Beta	0.97
Cost of Equity	**11.6%**
Cost of Debt	5.5%
Tax Rate	2.8%
After-Tax Cost of Debt	5.3%
Debt Weight	4.1%
Equity Weight	95.9%
WACC	**11.4%**
Terminal Growth Rate	4.8%
WACC - Terminal Growth	**6.6%**

Source: PhillipCapital Research estimates

DCF Target Price by WACC and Terminal Growth (TL/share)

WACC \ Terminal Growth	3.8%	4.3%	4.8%	5.3%	5.8%
10.36%	415.2	445.4	481.0	523.6	575.6
10.86%	374.8	399.8	428.8	463.1	504.2
11.36%	340.1	360.9	**385.1**	413.0	446.0
11.86%	309.9	327.5	347.6	370.8	397.7
12.36%	283.5	298.5	315.5	334.8	357.1

Source: PhillipCapital Research estimates

Peer Comparison

We assign 50%-50% weights to the P/E and EV/EBITDA methods in our 12-month target price. We also weight the 2026 and 2027 estimates equally, assigning 25% to each of the four valuation outputs. In the P/E method, we assume the low effective tax rate continues. The company's expectation that the existing tax exemptions will continue supports this assumption. Our multiples-based target is TL 600.4.

Peer Set and Multiples

Company	Country	Market Cap (USD mn)	P/E 2026E	P/E 2027E	EV/EBITDA 2026E	EV/EBITDA 2027E
Bharat Dynamics	India	4,817	57.0	41.0	57.0	37.0
Bharat Electronics Ltd.	India	30,670	48.4	42.2	35.5	30.6
Curtiss-Wright	US	20,930	36.5	32.9	24.8	21.9
Elbit Systems Ltd.	Israel	36,616	49.7	41.9	29.1	24.7
GE Aerospace	US	349,780	39.6	34.7	29.6	26.3
Hanwha Systems	South Korea	9,814	75.9	30.1	27.5	18.8
HEICO	US	45,510	51.6	45.6	26.4	22.9
Hensoldt AG	Germany	12,262	53.8	37.0	19.2	14.4
Kongsberg	Norway	28,277	40.7	26.5	27.6	18.7
L3Harris	US	53,720	25.9	22.1	15.1	13.6
Leonardo	Italy	39,518	21.2	17.6	10.7	9.1
LIG Nex1 Co.	South Korea	12,906	39.1	26.5	24.4	17.6
Saab AB	Sweden	35,429	41.1	33.3	22.8	18.3
Thales	France	62,181	29.1	21.9	13.2	11.9
Median			**40.9**	**33.1**	**25.6**	**18.8**
ASELSAN	**Türkiye**	**36,804**	**27.9**	**21.0**	**23.3**	**17.2**
Premium / Discount			(31.9%)	(36.6%)	(8.9%)	(8.5%)

Source: Bloomberg; PhillipCapital Research

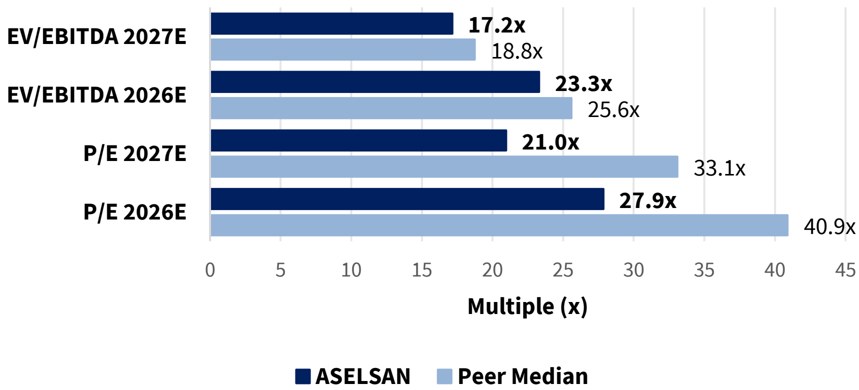
Target Price from Peer Multiples

USD mn	P/E 2026E	P/E 2027E	EV/EBITDA 26E	EV/EBITDA 27E
Peer Median (x)	40.9	33.1	25.6	18.8
ASELSAN Estimate	1,321	1,755	1,612	2,190
Implied Value	**54,047**	**58,090**	**41,279**	**41,066**
(-) Net Debt			737	737
(-) Minority Interest			38	38
Implied Market Cap	**54,047**	**58,090**	**40,504**	**40,291**
Weight	25.0%	25.0%	25.0%	25.0%

Target Market Cap (USD mn)	**48,233**
12M Forward USD/TRY	**56.8**
Target Market Cap (TL mn)	**2,737,823**
Shares Outstanding (mn)	**4,560**
Multiples-Based Target Price (TL)	**600.4**

Source: Bloomberg; PhillipCapital Research estimates.

Chart 18: Peer Median and ASELSAN Multiples (x)



Source: Bloomberg; PhillipCapital Research

Valuation Result

TL 546.6 target price and 40.2% upside potential

Our TL 546.6 target price implies 40.2% upside potential from the 8 September 2026 closing price. In our valuation, we assign 25% weight to DCF and 75% to peer multiples analysis.

Valuation Summary

TL mn / TL	
DCF Value (TL mn)	1,756,038
per Share (TL)	385.1
DCF Weight	25%
Multiples-Based Value (TL mn)	2,737,823
per Share (TL)	600.4
Multiples Weight	75%
12M Target Market Cap (TL mn)	**2,492,377**
12M Target Price (TL)	**546.6**
Current Price (TL)	390.00
12M Upside Potential	**40.2%**
Pricing Date	08.09.2026

Source: Company financial statements; PhillipCapital Research estimates.

We expect strong backlog and increasing production capacity to support revenue growth over the coming years. While high investment and working capital requirements limit free cash flow in the near term, we expect improved cash conversion after 2030 to support the valuation.

6. Methodology and Peer Selection

Peer Set Selection

We constructed our peer set from 14 companies: Bharat Electronics, Elbit Systems, Hensoldt, L3Harris, LIG Nex1, Saab, Kongsberg, Hanwha Systems, GE Aerospace, Curtiss-Wright, Leonardo, HEICO, Bharat Dynamics and Thales. We use similarities in defense electronics and systems integration as the main criteria in peer selection, while also including selected companies operating in electronics, missile/air defense and critical aerospace-defense subsystems.

We use median multiples for the peer set. As ASELSAN's P/E multiple is affected by its low effective tax rate, we assign 50%-50% weights to the P/E and EV/EBITDA methods. We also weight the 2026 and 2027 estimates equally, assigning 25% to each of the four valuation outputs.

We calculate that ASELSAN trades at discounts of approximately 8.9% and 8.5% to the peer median on 2026E and 2027E EV/EBITDA, respectively. We think the wider 32-37% discount range on P/E largely reflects the low effective tax rate. We see rerating potential as the company's growth above the peer median is reflected in its multiples.

Valuation and Pricing Methodology

We build our valuation in USD. In the peer analysis, we apply median multiples to USD-denominated earnings estimates and convert the equity value into TL using our 12-month forward USD/TRY rate of 56.76. In the DCF, we use the same exchange rate after rolling the equity value forward to the 12-month target date.

The DCF cash flow series starts on 1 July 2026. As net debt is based on the 30.06.2026 balance sheet, we do not include 1H26 cash flows in the DCF series.

We assign 25% weight to DCF and 75% to peer multiples in our target price. In practice, approximately 82% of our target market capitalization comes from the peer analysis. The 80.7% terminal value share in the DCF and its high sensitivity to terminal assumptions are factors behind the lower weight we assign to DCF.

Data and Source Notes

Company financials are based on ASELSAN's independently audited consolidated financial statements prepared under TAS 29. Operational data (backlog, new orders, export share and delivery schedule) are taken from ASELSAN's 1H26 Investor Presentation. Peer multiples are based on the model snapshot used in this report. Sector data were compiled from SIPRI, NATO, the European Commission and US FY2027 defense budget request documents. Shareholding structure is taken from the KAP Corporate Information Form. Price and ASELSAN market data are as of the BIST close on 8 September 2026.

Report Methodology

A stock's target value represents the value the analyst expects it to reach at the end of our 12-month performance period.

Outperform

If this rating is assigned to a company, it indicates that the stock is expected to deliver a better return than the index over the medium and long term. This rating does not, of course, guarantee that the stock will rise or outperform the index. Any change in market conditions after publication of the report, developments in the macroeconomy or global economies, or company-specific news may cause us to change this rating.

Market Perform

There may be various reasons for assigning a “Market Perform” rating to a stock. This rating may be assigned when the company's latest data indicate that forecasts for the future are unlikely to differ materially from the past. The share price may also be trading close to the level implied by our valuation. A “Market Perform” rating does not mean that the stock will not move either lower or higher. In general, it indicates that the stock is expected to deliver a return in line with the index over the medium and long term. However, any new information or change in market conditions may change this rating.

Underperform

If an “Underperform” rating is assigned to a stock, it indicates that a weaker return than the index is expected over the medium and long term. Even when an “Underperform” rating is assigned, the stock may experience short-term rebound rallies or its technical indicators may generate short-term buy signals. In some cases, although no return is expected from the stock over the medium and long term, important news, a temporary increase in earnings, or developments that may support the share price in the short term may result in short-term “Outperform” or “Market Perform” performance. PhillipCapital analysts review their valuations in line with company developments and may change their stock recommendations when deemed necessary. At times, however, a stock's target return may move outside our defined rating ranges due to price fluctuations. In such cases, the analyst may choose not to change the rating.

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