TACİRLER INVESTMENT

Retail Sector

Offers ample space for growth

The rapid growth in organized retail and uptrend in inflation have rendered the food retail sector more resilient against macro challenges in 2018. Above inflation revenue growth as well as margin gain, thanks to operating leverage, restructuring efforts and temporary inventory gains have also been evident in 2018E. We maintain our positive stance on the sector with healthy LFL growth primarily in 1H19 and store roll-out, though consumer sentiment remains downbeat. We also expect stellar performance in 4Q18 financials to be announced between February 28 and March 6. We initiate coverage of SOK with BUY rating, upgrade Bizim Toptan to BUY, maintain BUY on Migros and HOLD on BIM. Our top pick in the sector is SOK, owing to its superior growth projected and healthy balance sheet.

A buoyant growth outlook – The organized food retailers, representing 41% of the market, increased store count by 11% in 2018. Unlike the cautious stance of non-food retailers in store additions, due to higher financing costs, food retailers including **SOK** and **BIM** continue aggressive store openings, while **Migros** has also increased scale through inorganic growth. **Bizim Toptan** has borne the fruits of the restructuring in the product and customer mix in 2018. Furthermore, we expect healthy LFL growth through high inflation until mid-2019, despite the gradual downward trend in inflation since October.

Initiation of coverage in SOK with BUY rating and TL14.5 target price -SOK has capitalized on the evolution of organized retail while streamlining the business model to enhance scale and efficiency, since the change in management in 2015. As well as the operational improvement after the refurbishment in half of the stores, store count reached above 6,300, implying a 28% CAGR within 2015-2018E. The financial burden on the Company is also largely reduced, thanks to the proceeds of the IPO in May'18. We believe SOK is well positioned to benefit from the lucrative growth in modern retail.

Risks– Larger negative effect of easing inflation, rise in unemployment, and increasing personnel and energy costs on financials are downside risk factors. Potential exit of shareholders in Migros and SOK and sale of shares bought back by BIM, Bizim Toptan and SOK might also create overhang on shares in the long term.

Coverage	BIMAS	BIZIM	MGROS	SOK
Rating	**HOLD**	**BUY**	**BUY**	**BUY**
Target Price	TL96	TL10	TL27	TL14.5
Current Price*	TL90.3	TL7.2	TL17.06	TL11.25
Return potential	6%	39%	58%	29%

** Price on February 4, 2019*

Price performance	BIMAS	BIZIM	MGROS	SOK
TL				
1M	4%	12%	21%	3%
3M	14%	4%	6%	21%
Y-t-D	4%	6%	14%	5%
Rel. to BIST-100				
1M	-9%	-3%	5%	-10%
3M	5%	-4%	-3%	11%
Y-t-D	-7%	-5%	2%	-7%

Valuation	BIMAS	BIZIM	MGROS	SOK
P/E				
2018E	23.0x	22.3x	n.m.	50.4x
2019E	19.3x	16.0x	n.m.	48.6x
EV/EBITDA				
2018E	14.0x	1.3x	5.9x	10.4x
2019E	11.6x	0.8x	5.5x	8.4x
EV/Sales				
2018E	0.8x	0.1x	0.3x	0.5x
2019E	0.6x	0.1x	0.3x	0.4x

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Investment Case

The rapid growth in organized retail and uptrend in inflation have rendered the food retail sector more resilient against macro challenges in 2018. Above inflation revenue growth as well as margin gain, thanks to operating leverage, restructuring efforts and temporary inventory gains have also been evident in 2018E. We maintain our positive stance on the sector with healthy LFL growth primarily in 1H19 and store roll-out, though consumer sentiment remains downbeat. We also expect stellar performance in 4Q18 financials to be announced between February 28 and March 6. We initiate coverage of SOK with BUY rating, upgrade Bizim Toptan to BUY, maintain BUY on Migros and HOLD on BIM. Our top pick in the sector is SOK, owing to its superior growth projected and healthy balance sheet.

We believe the outstanding revenue and earnings growth for 2018 and 1H19 are already priced in for BIM.

BIM – HOLD- Target Price TL96 - BIM will register a stellar performance in 2018, reflecting the high inflation and sustainable growth in store network, based on our estimates. EBITDA margin will possibly stay above the historic average, given temporary inventory gains in 2018, while a normalization in margins should be realized in 2019E. Thus, we forecast slower earnings growth in 2019, after a high base. We believe the outstanding revenue and earnings growth for 2018 and 1H19 are already priced in and maintain our HOLD rating with TL96 target price. BIM trades at 19.3x 2019E P/E, at a 20% discount to its 10-year average, while the premium to international peers is almost in line with historic levels.

A re-rating in Bizim Toptan shares might be possible once the financing costs are somewhat reduced.

Bizim Toptan – BUY – Target Price TL10 – Bizim Toptan has borne the fruits of the restructuring in the product and customer mix through substantial increase in traffic and sales density, prompting 32% revenue growth and 270bp EBITDA margin gain in 9M18. Shift from the traditional channel and prudent approach in offering discounts to wholesalers have also helped substantial revenue growth. At the net margin level, higher interest expenses create a burden and the recovery is more limited compared to historic levels. Still, we believe the new management has maintained credibility after the outstanding results in 9M18, thus a re-rating in shares might be possible once the financing costs are somewhat reduced. Thus, we upgrade our rating to BUY with TL10 per share target price.

We still see Migros as a long-term opportunity, owing to potential value creation through asset disposals and free cash flow generation.

Migros – BUY – Target Price TL27 - Migros has been among the worst performers in the last one-year period, given its exposure to EUR denominated debt and sharp TL depreciation. The operational success was not fully seen at the bottomline in 9M18, due to FX losses, while the management has put efforts to somewhat reduce the EUR based debt. We still see Migros as a long-term opportunity, owing to potential value creation through asset disposals and free cash flow generation. Therefore, we keep our BUY rating with TL27 per share price.

We believe SOK is well positioned to benefit from the lucrative growth in organized retail and initiate coverage with a BUY rating and TL14.5 target price.

SOK – BUY – Target Price TL14.5 - SOK has capitalized on the evolution of organized retail while streamlining the business model to enhance scale and efficiency, since the management change in 2015. As well as the operational improvement after the refurbishment in half of the stores, store count reached above 6,300, implying a 28% CAGR within 2015-2018E. The financial burden on the Company is also largely reduced, thanks to the proceeds of the IPO in May'18. We believe SOK is well positioned to benefit from the lucrative growth in modern retail and initiate coverage with a BUY rating and TL14.5 target price.

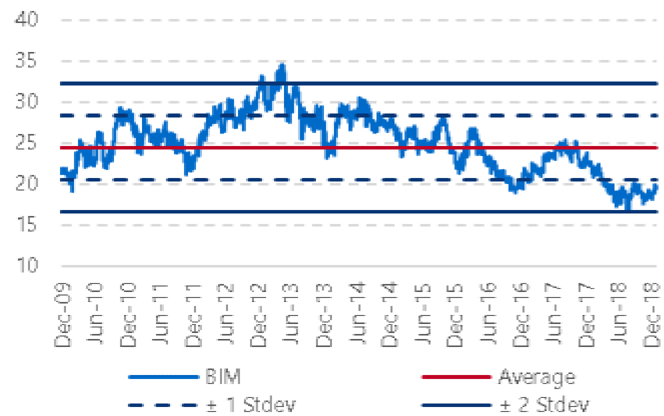
Risks for the companies – Slower revenue growth and larger margin decline than forecast in 2019, due to the potential downtrend in inflation in 2H19, slower traffic with the potential rise in unemployment and higher cost pressure from increasing personnel and energy costs are downside risk factors for operational profitability. Potential exit of shareholders in Migros and SOK and sale of shares bought back by BIM, Bizim Toptan and SOK might also create an overhang on shares in the long term. Finally, a larger TL weakness against EUR than forecast would bode ill for Migros's profitability.

International Peer Comparison

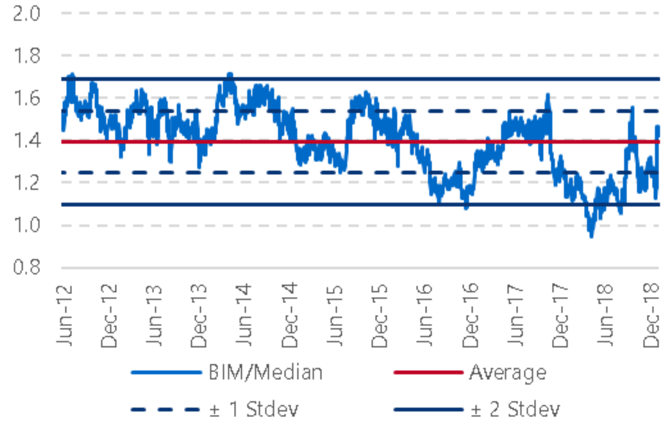
Company	Country	Mcap (USD mn)	EV/EBITDA			P/E			EBITDA CAGR	Earnings CAGR
			18E	19E	20E	18E	19E	20E	18-21E	18-21E
Magnit	Russia	8,054	7.2	6.4	5.5	14.4	13.1	11.5	12%	15%
X5	Russia	7,300	6.3	5.5	4.9	14.8	12.2	10.6	14%	10%
Lenta	Russia	1,605	5.3	4.9	4.4	8.7	8.1	7.4	4%	12%
O'key	Russia	417	6.0	5.7	5.1	29.2	17.3	12.4	10%	53%
Shoprite	South Africa	7,038	9.5	9.6	8.6	14.7	16.9	15.1	7%	1%
Massmart	South Africa	1,493	7.3	6.3	5.9	17.2	14.2	12.4	12%	23%
Pick n Pay Stores	South Africa	2,540	11.2	10.3	9.4	24.0	21.1	18.6	10%	14%
Spar	South Africa	2,787	11.7	10.2	9.4	18.6	16.9	15.2	11%	10%
Eurocash	Poland	742	9.0	7.6	6.9	31.4	22.9	18.4	13%	30%
Walmart de Mexico	Mexico	45,235	13.8	12.6	11.5	24.1	22.5	20.9	9%	9%
Organizacion Soriana	Mexico	2,506	5.4	4.9	4.4	11.3	10.2	9.1	4%	8%
Lotte Shopping	South Korea	4,901	7.1	6.1	5.5	114.5	12.6	11.0	4%	n.m.
Abdullah Al Otha	Saudi Arabia	1,627	11.7	10.4	9.3	17.6	16.0	14.4	9%	8%
Median			**7.3**	**6.4**	**5.9**	**17.6**	**16.0**	**12.4**	**10.1%**	**11.1%**
BIM	**Turkey**	**5,253**	**14.0**	**11.6**	**9.5**	**23.0**	**19.3**	**16.2**	**17.9%**	**20.3%**
Premium / Discount to Peers			93%	80%	61%	30%	21%	31%		
Bizim Toptan	**Turkey**	**83**	**1.3**	**0.8**	**0.6**	**22.3**	**16.0**	**14.6**	**13.2%**	**21.9%**
Premium / Discount to Peers			-82%	-88%	-89%	n.m.	n.m.	18%		
Migros	**Turkey**	**592**	**5.9**	**5.5**	**4.7**	**n.m.**	**n.m.**	**n.m.**	**14.4%**	**n.m.**
Premium / Discount to Peers			-19%	-14%	-20%	n.m.	n.m.	n.m.		
SOK	**Turkey**	**1,319**	**10.4**	**8.4**	**5.9**	**50.4**	**48.6**	**24.2**	**23.5%**	**35.6%**
Premium / Discount to Peers			43%	30%	-1%	n.m.	n.m.	n.m.		

Source: Bloomberg and Tacirler Investment

BIM – 12M forward looking P/E

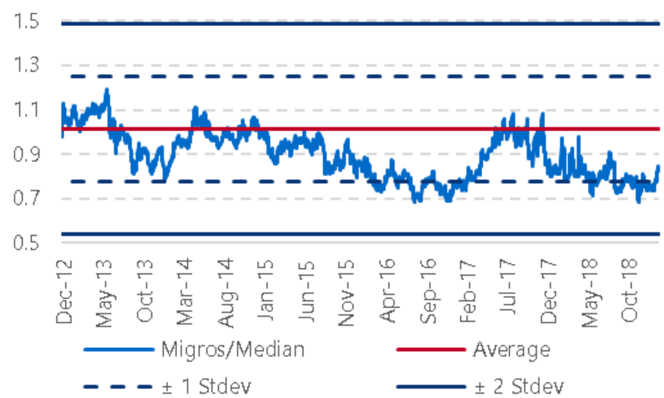


BIM/Peer group median P/E



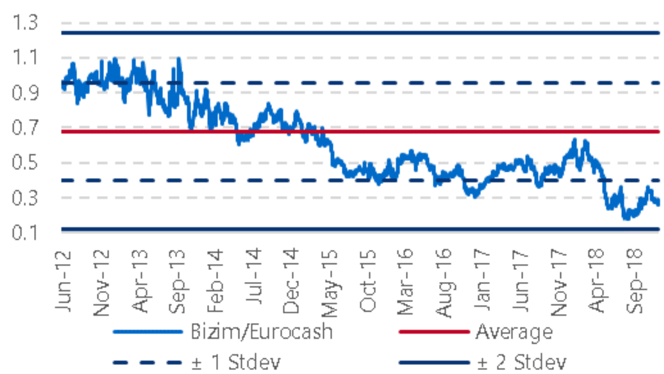
Migros - 12M forward looking EV/EBITDA

Migros/Peer group median EV/EBITDA



Bizim Toptan - 12M forward looking EV/EBITDA

Bizim Toptan/Eurocash EV/EBITDA



Source: Bloomberg [1] Median of 13 international peers.

4Q18 Estimates

TL mn		Consensus 4Q18	Tacirler 4Q18	4Q17	3Q18	Chg y/y	Chg q/q	Notes
BIMAS	Revenues	8,845	8,962	6,597	8,460	36%	6%	**Announcement Date: March 6** Inflationary support, around 25% LFL growth and 11% increase in number of stores will be the main drivers for revenue growth y/y in 4Q18. We expect a lower margin gain y/y, compared to 3Q18, due to discounts on some products and higher cost base.
	EBITDA	462	459	324	562	42%	-18%	
	Net Income	301	303	222	364	37%	-17%	
	EBITDA margin	5.2%	5.1%	4.9%	6.6%	0.22%	-1.52%	
	Net margin	3.4%	3.4%	3.4%	4.3%	0.02%	-0.92%	
BIZIM	Revenues	978	982	830	1,005	18%	-2%	**Announcement Date: February 28** Our expectation is slower y/y growth in sales density in 4Q18, given weaker tobacco sales with high base, while robust growth in the main category sales should continue. Restructuring efforts will support margin accretion also in 4Q18, in our view.
	EBITDA	35	35	22	43	57%	-19%	
	Net Income	6	5	0	9	2135%	-48%	
	EBITDA margin	3.6%	3.6%	2.7%	4.3%	0.87%	-0.73%	
	Net margin	0.6%	0.5%	0.0%	0.9%	0.45%	-0.42%	
MGROS	Revenues	4,957	4,985	4,022	5,331	24%	-6%	**Announcement Date: March 5** We expect 24% revenue growth y/y to be sustainable in 4Q18, driven by the continuing inflationary support and 11% growth in store count y/y. The restructuring at Kipa stores and inclusion of higher margin Uyum stores will help to grow margins in 4Q18. Furthermore, given q/q TL appreciation against EUR, we forecast FX gains.
	EBITDA	285	292	226	388	29%	-25%	
	Net Income	482	538	-206	-667	-361%	-181%	
	EBITDA margin	5.8%	5.9%	5.6%	7.3%	0.22%	-1.42%	
	Net margin	9.7%	10.8%	-5.1%	-12.5%	15.93%	23.31%	
SOKM	Revenues	3,815	4,073	3,066	3,257	33%	25%	**Announcement Date: March 6** We expect 33% revenue growth y/y, driven by sustained increase in store count and sales density along with the accelerated inflation. 4Q gross margin will exclude the temporary inventory gain recorded in 3Q, thus a more normalised level should be realized. Additionally, thanks to lower net debt position after the IPO, substantial y/y decline in financial expenses should be seen in 4Q18.
	EBITDA	194	214	88	228	142%	-6%	
	Net Income	26	15	-105	12	-114%	30%	
	EBITDA margin	5.1%	5.3%	2.9%	7.0%	2.38%	-1.75%	
	Net margin	0.7%	0.4%	-3.4%	0.4%	3.78%	0.01%	

Source: Research Turkey and Tacirler Investment, [1]The yearly and quarterly changes are based on Tacirler 4Q18 estimates.

Comparison with Consensus

Comparison with consensus

Estimates									
BIM	**Consensus**			**Tacirler**			**Difference**		
TLmn	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Net Sales	31,996	40,418	49,128	32,191	40,008	48,403	1%	-1%	-1%
EBITDA	1,837	2,183	2,623	1,828	2,150	2,522	0%	-1%	-4%
Net Income	1,201	1,428	1,728	1,194	1,419	1,688	-1%	-1%	-2%
EBITDA Margin	5.7%	5.4%	5.3%	5.7%	5.4%	5.2%	-0.1pp	0.0pp	-0.1pp
Target Price (TL per share)	**93.0**			**96.0**			**3%**		
Bizim Toptan	**Consensus**			**Tacirler**			**Difference**		
TL mn	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Net Sales	3,634	4,171	4,714	3,711	4,338	5,087	2%	4%	8%
EBITDA	121	133	140	134	143	170	11%	7%	22%
Net Income	19	23	30	19	27	30	3%	15%	-1%
EBITDA Margin	3.3%	3.2%	3.0%	3.6%	3.3%	3.3%	0.3pp	0.1pp	0.4pp
Target Price (TL per share)	**8.5**			**10.0**			**17%**		
Migros	**Consensus**			**Tacirler**			**Difference**		
TL mn	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Net Sales	18,755	22,221	25,959	18,782	22,669	26,383	0%	2%	2%
EBITDA	1,004	1,183	1,426	1,084	1,207	1,423	8%	2%	0%
Net Income	-484	-269	20	-656	-638	-396	n.m.	n.m.	n.m.
EBITDA Margin	5.4%	5.3%	5.5%	5.8%	5.3%	5.4%	0.4pp	0.0pp	-0.1pp
EBITDA Margin (prov) [1]				6.2%	5.8%	5.8%			
Target Price (TL per share)	**24.6**			**27.0**			**10%**		
SOK	**Consensus**			**Tacirler**			**Difference**		
TL mn	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Net Sales	12,459	16,789	21,475	12,783	16,272	20,310	3%	-3%	-5%
EBITDA	589	783	1,012	670	780	1,012	14%	0%	0%
Net Income	181	153	346	137	142	285	-25%	-8%	-18%
EBITDA Margin	4.7%	4.7%	4.7%	5.2%	4.8%	5.0%	0.5pp	0.1pp	0.3pp
Target Price (TL per share)	**14.4**			**14.5**			**1%**		

Source: Bloomberg and Tacirler Investment, [1]EBITDA margin (prov) includes the provision for termination benefit and unused vacation, in line with the management calculation..

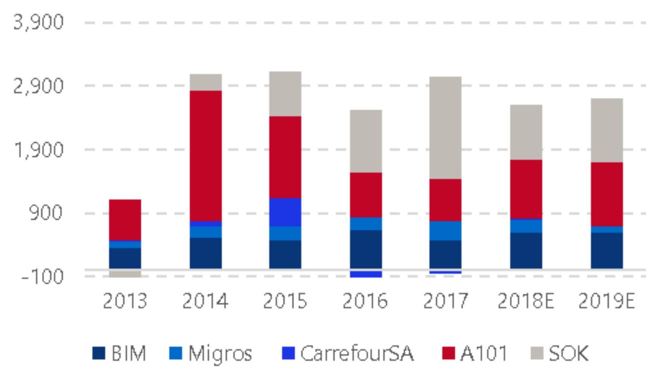
Sector Outlook

Modern retail market expansion at full speed

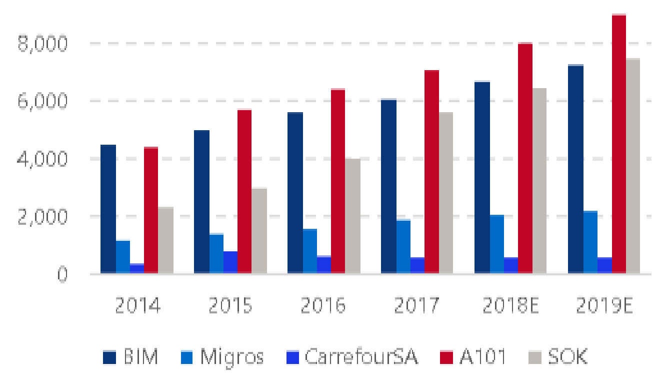
We project 7% CAGR in number of stores until YE21.

The modern retail ended the year with around 31K stores, implying an 11% growth and we estimate its revenue share in food retail sector has risen to 41% in 2018E. Unlike the cautious stance of non-food retailers in store additions, due to higher financing costs, food retailers pursue aggressive store openings. We expect 2,900 store additions (BIM 600, A101 1,000, SOK 1,000 and Migros 100 stores), implying a 9% growth to 34K stores in 2019. Given the growing store count base, we factored in a slower pace of growth after 2019, implying a CAGR of 7% for the total store count in organized retail within 2018-2021, versus 12% attained within 2015-2018.

New store openings – Top 5 players[1]



Number of stores – Top 5 players



Source: The Companies, ortak@lan*, Tacirler Investment, [1] CarrefourSA closed some stores in 2016, after the acquisition of Kiler.*

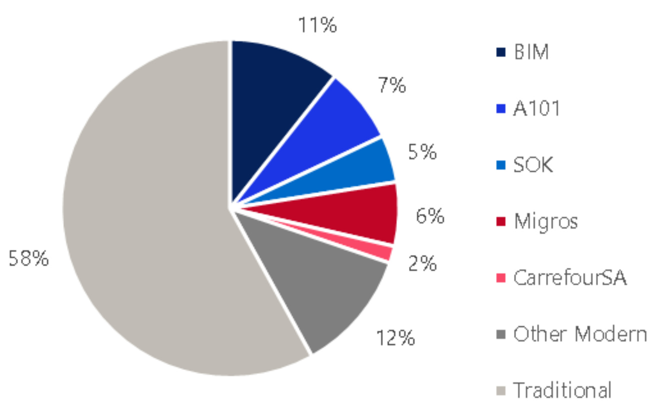
We expect BIM and Migros to constitute 11% and 6% of the food retail market, respectively, in 2019.

Contrary to the lower number of stores of BIM than A101, BIM continues to lead the market in value terms, due to higher basket size per customer than other discounters and customer traffic being 60% higher than those of A101 and SOK. BIM's first mover advantage and sustained customer loyalty, on the back of its wide private label product offerings are the key factors that boost customer traffic. Additionally, Migros benefits from higher sales density and selling space per store than discounters, as the leading supermarket chain. We expect BIM and Migros to constitute 11% and 6% of the food retail market, respectively, in 2019.

Furthermore, SOK, with 5% potential value share in 2019E, has seen dramatic growth in its store network with 28% CAGR since the management change in 2015. The management maintains the target to double the store network between 2017 and 2022, implying 1,000 p.a. store roll-out. SOK's customer traffic figures have been impressing with 3-4% growth attained in the last couple of years, thanks to its relatively younger store network, with old stores in LFL analysis representing only 51% of total stores (72% in BIM where traffic is lower at 1%). Note that the daily traffic per store at 446 is still lower than BIM's traffic figure of 700 as of 3Q18.

Despite the relatively older store network and intensifying competition, BIM managed to deliver 1.5% y/y growth in customer traffic in 9M18. We expect slightly lower traffic growth for BIM and SOK at 0.5% and 2.5%, respectively, in 2019; owing to slower GDP growth. We argue that the recent increase of 26% in minimum wage was mostly related to the steep increase in inflation, hence its effect on basket size and traffic growth should be limited.

Market shares 2019E – Food retail (value)[1]



BIM Customer traffic – % Y/Y change

Source: The Companies, ortak@lan*, Tacirler Investment, [1]Market share at 7% released by the Migros management is based on Nielsen data, where some of non-food and fresh food products are excluded.*

Inflation easing m/m, yet revenue support continues

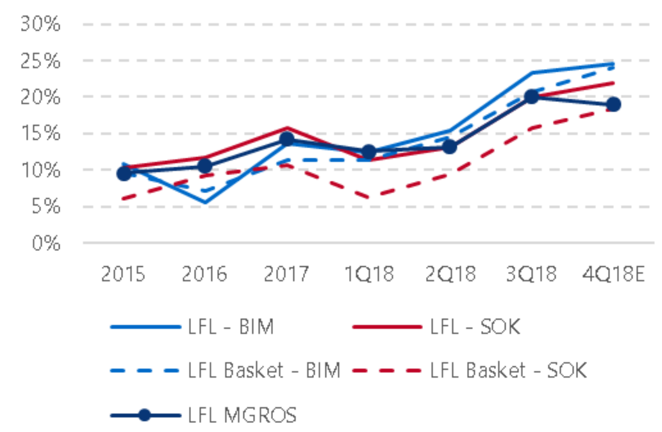
Higher LFL growth to be attained in 4Q18, driven by the inflationary support.

The inflation has seen a gradual downward trend since the peak in October, driven by the diminishing volatility in TL, tax incentives concerning some sectors and fight against inflation campaign on products. The retailers have also participated in the campaign with around 4-7% of their portfolio. However, most recently, the government began to criticize food retailers, claiming that the efforts by retailers to reduce prices were limited, owing to the persisting high levels in food inflation. Later the chairman of Turkish Retailers Federation announced the decision not to sell some fresh foods, price of which have skyrocketed recently, by retailers in poor areas.

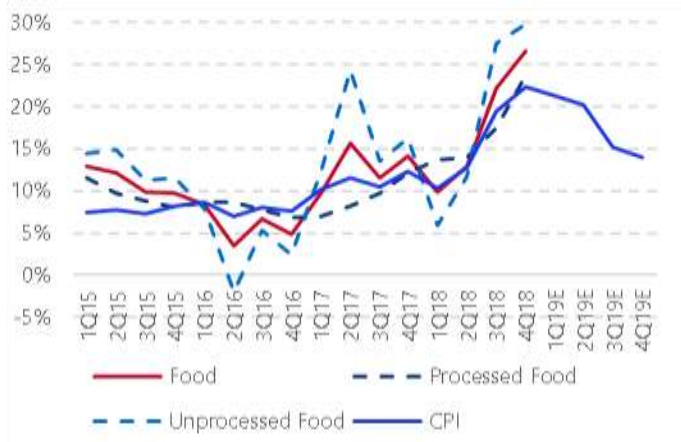
In line with the slight decline in headline inflation, we expect some easing in the like-for-like basket growth for retailers from the higher October figure. As might be recalled, BIM's internal inflation and LFL basket size growth were 350bp higher than processed food inflation of 17.4% in 3Q18, due to the substantial price increases in basic fresh products (egg, milk etc.) and packaging costs. The internal inflation reached 28% in October and is in a downslide since then, therefore we estimate 24% LFL basket size growth (processed food inflation at 23.8%) for 4Q18 versus 20.7% recorded in 3Q18. We expect similar LFL basket growth in the beginning of 2019 and downward swing in basket size growth figures throughout 2019.

SOK's LFL basket size growth has seen a different trend in comparison to BIM, due to a more diversified portfolio with 1,500 SKU, more than double of BIM at 700; and inclusion of the tobacco segment with 13% revenue share. Additionally, fresh fruits and vegetables represent 6% of SOK's product portfolio vs. 2% share in BIM. Finally, private label products have a lower contribution of 27% in SOK vs. 67% in BIM (all figures based on 2018E data). Hence, SOK's LFL basket size growth historically had a higher correlation with CPI, as in Migros, while internal inflation has historically been 300-500bp below CPI. Given the temporary availability issues with suppliers in 1H18, a lower LFL basket size growth recorded at 10.5% in 9M18, versus 14% average inflation. The LFL basket size growth reached 15.5% in 3Q18, driven by the uptrend in CPI. For 4Q18, we expect LFL basket size growth to reach 18.4%, supported by higher average inflation level. We foresee smoother LFL basket size growth at around 15% in 2019E compared to 2H18, due to potential easing inflation, particularly in 2H19.

Like-for-like growth[1]



Food Inflation – Y/Y change

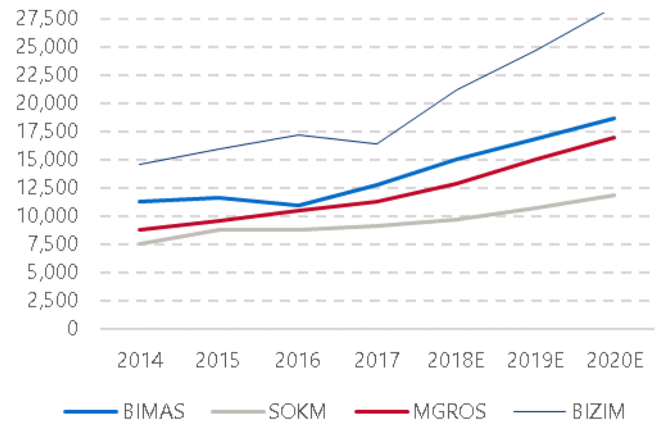


Source: The companies, Turkstat, and Tacirler Investment, [1]Tacirler Estimate

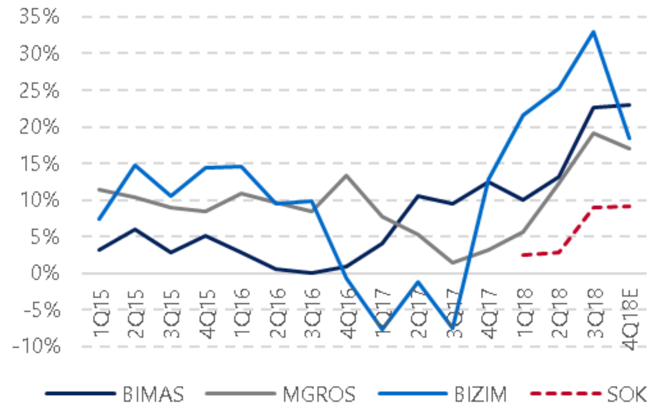
As for Bizim Toptan, new levels of revenue/sqm (up 28% in 9M18) and gross margin (up 260bp in 9M18) have been settled in 2018 after the low base in 2017; thanks to the restructuring in the wholesale segment with lower discounts offered, SKU optimization and 300bp higher contribution of higher margin Horeca, individual and corporate segments to 33%. Additionally, Bizim Toptan's aggressive pricing during the steep increases in product prices have prompted an increase in traffic, with the number of active accounts up 33% in 9M18. Our expectation is slower y/y growth in 4Q18, given weaker tobacco sales due to the high base, while robust growth in the sales density of the main category should continue. For 2019, given that most of the benefits of restructuring were seen in 2018, we expect only 500bp + internal inflation (300-500bp lower than CPI) growth in revenue/sqm in 2019.

For Migros, the successful restructuring and synergies with Kipa stores, inorganic growth through the addition of Uyum and Makro stores in 2Q18, inflationary support and store openings all contributed to 22% revenue growth and 60bp margin gain y/y in 9M18. The good seasonal performance in summer and higher international revenues have also played a role in higher revenues, up 24% y/y in 3Q18. The management in the 3Q results teleconference stated that the transformation of 70% of Kipa stores was completed in 3Q18, while 54 Uyum/Makro stores were converted to Migros stores. Therefore, we expect the synergies to continue to be realized for a few more quarters, compensating for the CPI-linked increase in opex items. We estimated CPI minus 100bp increase in revenue/sqm in 2019, given possibly lower traffic growth in tandem with the weakening economy.

Sales density -Revenue/sqm (TL)



Revenue/sqm – Y/Y change



Source: The companies and Tacirler Investment

Margin erosion might be seen in 2019, after a high base

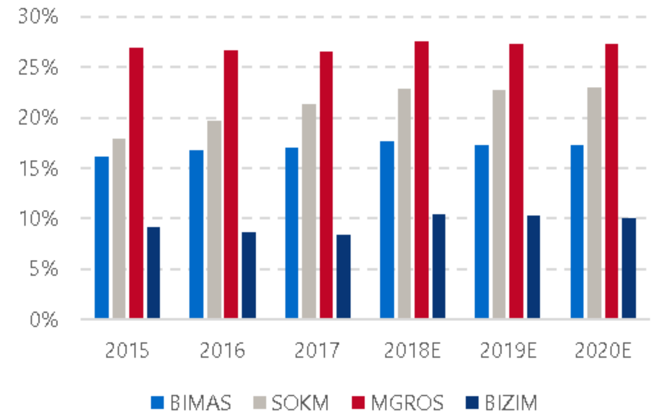
The outstanding gross margin performances in retailers in 2018E will be bolstered by i) temporary inventory gains delivered in 3Q18 amid the steep increase in inflation, ii) discounts provided by small-mid scaled suppliers for early payment, iii) effect of discounting of receivables/payables on gross margin, iv) mix effect and efficiencies gained in product portfolio (particularly for Bizim Toptan). In the absence of inventory gains, we factor in a more normalized gross margin level for 4Q18 and 2019, assuming that the one-off gains will not be repeated.

We forecast 30-40bp decline in EBITDA margins of retailers for 2019, after the high base.

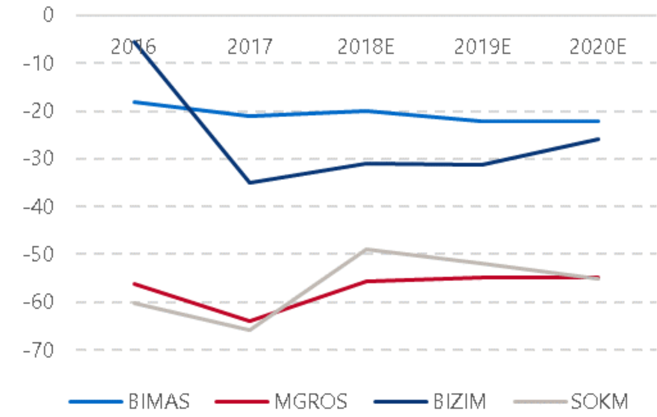
Furthermore, in our models, we factor in 20-30bp rise in opex/sales ratio, primarily due to minimum wage increase of 26%, which influences the costs of 50-60% of total personnel. However, we plug in 21-23% cost increase in our models, given the persisting minimum wage incentives and incentives provided for new hires for corporates. We also believe the effect of the some CPI-linked cost items under OPEX should have a smaller effect on the rise of opex/sales ratio, including rent expenses, where more favorable increases than CPI might occur. Consequently, **we forecast 30-40bp decline in EBITDA margins of retailers for 2019,** in line with the sustainable EBITDA margin level provided by the Companies. **Note that the managements' guidance for 2019 is more positive regarding EBITDA margin performance compared to our estimates.**

Unlike the similar trend in operational figures for retailers, the performance at the net margin levels varies, due to the sharp increase in due date expenses in 3Q18, along with the steep rise in discount rates (800bp ytd for Bizim Toptan in 9M18). This effect has partially compensated for the one-off gain at the gross margin level for Bizim Toptan, Migros and SOK. Still, Bizim Toptan recorded substantial net earnings growth after a low base, while finance expenses of SOK have declined dramatically after the IPO in May'18. Additionally, Migros's bottomline was affected by the volatility in EUR/TL during the year.

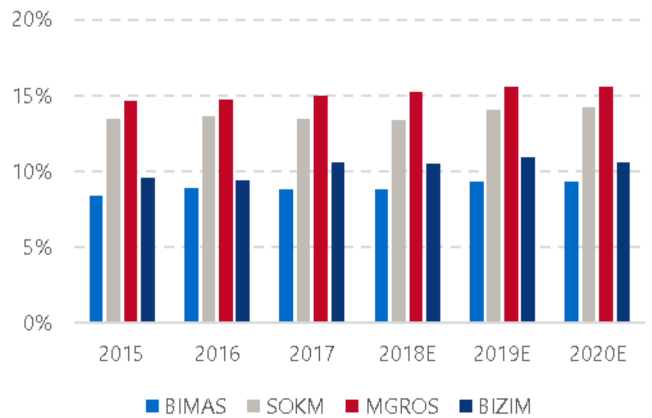
Gross Margin



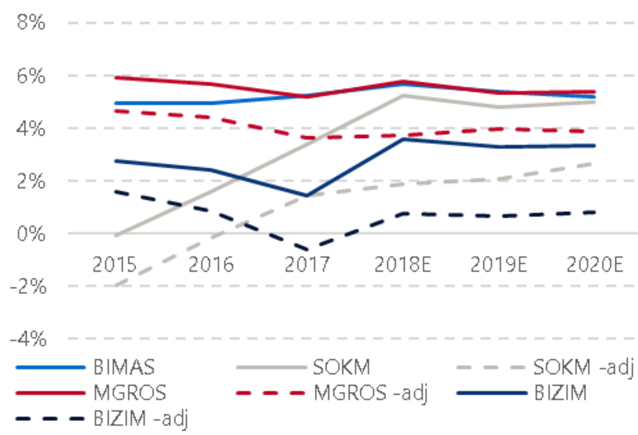
Cash Cycle (days)



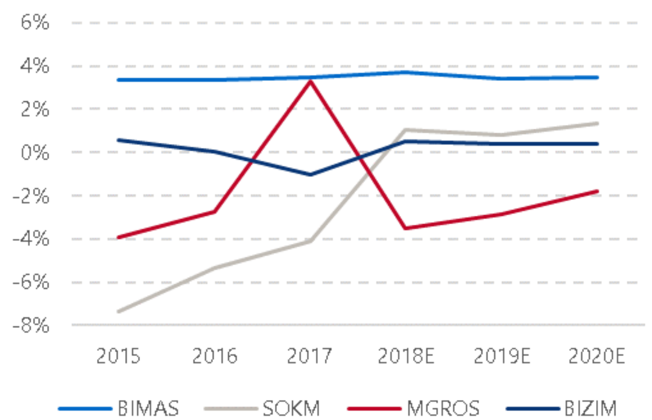
Personnel & Rent Expense/Sales[1]



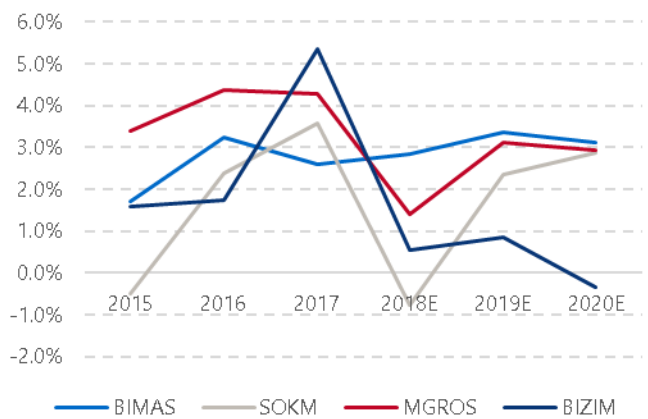
EBITDA margin[2]



Net Margin



FCF Margin



Source: Bloomberg, [1]BIM's rent expense/sales ratio is 200-250bps lower than Migros and SOK, as most of the warehouses and File stores are owned by BIM.
[2]EBITDA adjusted for due date expenses related to receivables and payables and credit card commission expenses.

Summary of Forecasts – Part 1

TL mn	2017	2018E	2019E	2020E	2021E	CAGR 18-21E
BIM						
Number of Stores	6,765	7,478	8,193	8,808	9,423	8%
y/y	10%	11%	10%	8%	7%	
Selling Space (Ksqm)	2,036	2,264	2,498	2,702	2,906	9%
y/y	11%	11%	10%	8%	8%	
Revenue/store	3,764	4,441	5,050	5,694	6,304	12%
y/y	11%	18%	14%	13%	11%	
% like-for-like -Turkey	13.7%	19.0%	18.1%	15.0%	12.3%	
Revenues	**24,779**	**32,191**	**40,008**	**48,403**	**57,466**	21%
y/y	23%	30%	24%	21%	19%	
EBITDA	1,296	1,828	2,150	2,522	2,994	18%
Net Earnings	863	1,194	1,419	1,688	2,079	
Free Cash Flow	646	920	1,347	1,503	1,860	
Gross Margin	17.1%	17.7%	17.4%	17.2%	17.2%	
Opex/Sales	12.9%	13.1%	13.0%	13.0%	13.0%	
EBIT Margin	4.2%	4.6%	4.4%	4.2%	4.2%	
EBITDA Margin	**5.2%**	**5.7%**	**5.4%**	**5.2%**	**5.2%**	
Net Margin	3.5%	3.7%	3.5%	3.5%	3.6%	
ROE	35.5%	34.4%	37.7%	38.4%	40.0%	
ROIC	49.6%	57.1%	69.0%	86.7%	114.3%	
FCF Margin	2.6%	2.9%	3.4%	3.1%	3.2%	

TL mn	2017	2018E	2019E	2020E	2021E	CAGR 18-21E
Bizim Toptan						
Number of Stores	176	175	178	181	184	2%
y/y	9%	-1%	2%	2%	2%	
Selling Space (Ksqm)	177	174	177	180	182	2%
y/y	8%	-2%	2%	2%	2%	
Revenue/sqm	16,364	21,127	24,695	28,523	32,092	15%
y/y	-5%	29%	17%	15%	13%	
Revenues	**2,896**	**3,711**	**4,338**	**5,087**	**5,810**	16%
y/y	4%	28%	17%	17%	14%	
EBITDA	42	134	143	170	194	13%
Net Earnings	-30	19	27	30	35	
Free Cash Flow	155	20	37	-18	10	
Gross Margin	8.4%	10.5%	10.3%	10.2%	10.1%	
Opex/Sales	7.7%	7.6%	7.8%	7.6%	7.6%	
EBIT Margin	-0.7%	-2.9%	-2.5%	-2.6%	-2.6%	
EBITDA Margin	**1.4%**	**3.6%**	**3.3%**	**3.3%**	**3.3%**	
EBITDA Margin Adj.	**-0.6%**	**0.7%**	**0.7%**	**0.8%**	**0.9%**	
Net Margin	-1.0%	0.5%	0.6%	0.6%	0.6%	
ROE	-24.9%	17.0%	20.6%	20.0%	21.0%	
ROIC	n.m.	n.m.	n.m.	n.m.	n.m.	
FCF Margin	5.3%	0.5%	0.8%	-0.4%	0.2%	

Source: The companies and Tacirler Investment

Summary of Forecasts – Part 2

TL mn	2017	2018E	2019E	2020E	2021E	CAGR 18-21E
Migros						
Number of Stores	1,897	2,103	2,205	2,307	2,409	5%
y/y	18%	11%	5%	5%	4%	
Selling Space (Ksqm)	1,416	1,495	1,533	1,572	1,611	3%
y/y	31%	6%	3%	3%	2%	
Revenue/sqm	11,222	12,903	14,973	16,993	18,888	14%
y/y	7%	15%	16%	13%	11%	
Revenues	**15,344**	**18,782**	**22,669**	**26,383**	**30,061**	17%
y/y	39%	22%	21%	16%	14%	
EBITDA	798	1,084	1,207	1,423	1,622	14%
Net Earnings	513	-656	-638	-396	-14	
Free Cash Flow	657	261	697	680	730	
Gross Margin	26.6%	27.6%	27.3%	27.3%	27.3%	
Opex/Sales	23.2%	23.4%	23.5%	23.5%	23.5%	
EBIT Margin	3.4%	4.2%	3.8%	3.9%	3.9%	
EBITDA Margin	**5.2%**	**5.8%**	**5.3%**	**5.4%**	**5.4%**	
EBITDA Margin Adj.	**3.6%**	**3.7%**	**4.0%**	**3.9%**	**3.8%**	
Net Margin	3.3%	-3.5%	-2.8%	-1.5%	0.0%	
ROE	59.6%	n.m.	n.m.	n.m.	n.m.	
ROIC	7.9%	8.0%	11.0%	13.7%	n.m.	
FCF Margin	4.3%	1.4%	3.1%	2.6%	2.4%	

TL mn	2017	2018E	2019E	2020E	2021E	CAGR 18-21E
SOK						
Number of Stores	5,598	6,364	7,364	8,364	9,364	14%
y/y	40%	14%	16%	14%	12%	
Selling Space (Ksqm)	1,153	1,376	1,598	1,820	2,079	15%
y/y	32%	19%	16%	14%	14%	
Revenue/store	1,945	2,093	2,328	2,583	2,814	10%
y/y	1%	8%	11%	11%	9%	
% like-for-like	16%	17%	18%	15%	12%	
Revenues	**9,512**	**12,783**	**16,272**	**20,310**	**24,944**	**25%**
y/y	41%	34%	27%	25%	23%	
EBITDA	322	670	780	1,012	1,262	24%
EBITDA Adjusted	**139**	**240**	**342**	**545**	**713**	**44%**
Net Earnings	-433	137	142	285	341	
Free Cash Flow	177	-98	382	586	651	
Gross Margin	21.4%	22.9%	22.7%	23.0%	23.0%	
Opex/Sales	19.7%	19.2%	19.4%	19.4%	19.2%	
EBIT Margin	1.7%	3.7%	3.3%	3.6%	3.7%	
EBITDA Margin	**3.4%**	**5.2%**	**4.8%**	**5.0%**	**5.1%**	
EBITDA Margin Adj.	**1.5%**	**1.9%**	**2.1%**	**2.7%**	**2.9%**	
Net Margin	-4.6%	1.1%	0.9%	1.4%	1.4%	
ROE	n.m.	41.7%	35.6%	48.2%	40.6%	
ROIC	n.m.	7.6%	31.5%	n.m.	n.m.	
FCF Margin	1.9%	-0.8%	2.3%	2.9%	2.6%	
CPI Average	11.1%	16.3%	17.7%	13.9%	11.2%	
EUR/TL Average	4.1136	5.6695	6.6913	7.8707	8.6009	
EUR/TL Close	4.5155	6.0280	7.3099	8.3855	8.8048	

Source: The companies and Tacirler Investment

BIM

Time for a breather

BIM will have registered a stellar performance in 2018, reflecting the high inflation and sustainable growth in store network, based on our estimates. EBITDA margin will possibly stay above the historic average, given temporary inventory gains in 2018, while a normalization in margins should be realized in 2019E. Thus, we forecast slower earnings growth in 2019, after a high base. We believe the outstanding revenue and earnings growth for 2018 and 1H19 are already priced in and maintain our HOLD rating with TL96 target price. BIM trades at 19.3x 2019E P/E, at a 20% discount to its 10-year average, while the premium to international peers is in line with historic levels.

Inflationary effect to support revenues in 1H19 as well– BIM's revenues, up 28% y/y in 9M18, were boosted by higher basket size LFL growth at 19% than processed food inflation, due to steeper price increase observed in basic fresh products. We believe the above inflation LFL growth is sustainable in 1H19, yet factor in a downward swing in LFL figures throughout 2019. Additionally, LFL growth in customer traffic should remain modest owing to slower growth in the economy and maturing store network. Still, we expect BIM to increase revenues by 24% in 2019, thanks to double-digit growth in revenue per store and sustained 10% growth in number of stores.

A more normalized margin performance is possible in 2019E – We expect BIM to deliver the highest EBITDA margin at 5.7% since 2009 by YE18, driven by the temporary inventory gains and more favorable purchasing terms with suppliers through growing scale. We factor in a 30bp decline in gross margin, due to the absence of inventory gains and potential decline in inflation in 2H19. However, we expect opex/sales ratio to remain flattish in 2019, as the possible decline in packaging costs (around 40bp positive effect), after the fees introduced on bags as of Jan'19 will presumably compensate for the minimum wage increase and higher energy costs. All in all, we anticipate 30bp decline in EBITDA margin to 5.4% and 19% EBITDA growth in 2019E.

Higher dividend yield forecasted – We expect TL2.8 dividend per share on 2018 earnings, implying a 3% dividend yield.

Rating	**HOLD**
Target Price	TL96
Return potential	6%

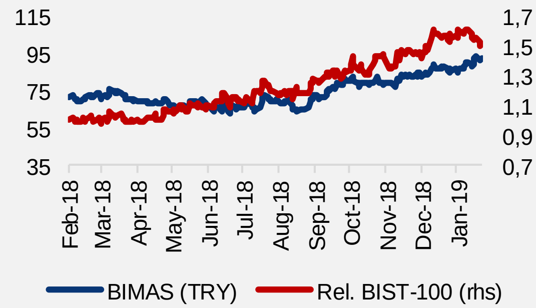
Share Data	
Ticker:	**BIMAS TI**
Share price (as of 04-02-2019)	90.3
Share price (52 week range)	63.1 / 93.4
Market cap. (TL mn - USD mn)	27,415 - 5,253
# of shares (mn) & free float	303.6 - 60%

Avg. trading volume	**1M**	**3M**	**12M**
USD mn	16.0	16.3	15.7

Price performance	**1M**	**3M**	**Y-t-D**
TL	4%	14%	4%
USD	8%	19%	5%
Rel. to BIST-100	-9%	5%	-7%

Forecasts (TL mn)	**2018E**	**2019E**	**2020E**
Revenues	32,191	40,008	48,403
EBITDA	1,828	2,150	2,522
Net Earnings	1,194	1,419	1,688

Valuation	**2018E**	**2019E**	**2020E**
P/E	23.0x	19.3x	16.2x
P/BV	7.9x	6.8x	5.8x
EV/EBITDA	14.0x	11.6x	9.5x
EV/Sales	0.8x	0.6x	0.5x
Dividend Yield	2.1%	3.0%	3.6%



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Valuation

Our DCF valuation incorporate the major changes in operational figures and WACC assumptions of 16% risk-free-rate, 5.5% ERP, 0.36 Beta and terminal growth rate of 8%. Our valuation suggests TL96 per share target price. BIM trades at 19.3x 2019E P/E, at an 20% discount to its 10-year average, while the premium to international peers is in line with historic levels.

BIM – Discounted cash flow analysis

TL mn	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	**32,191**	**40,008**	**48,403**	**57,466**	**67,263**	**77,440**	**87,754**	**97,986**	**108,850**	**120,877**	**134,196**
y/y growth	30%	24%	21%	19%	17%	15%	13%	12%	11%	11%	11%
EBITDA	**1,828**	**2,150**	**2,522**	**2,994**	**3,518**	**4,050**	**4,590**	**5,125**	**5,693**	**6,322**	**7,019**
EBITDA Margin	5.7%	5.4%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
Taxes on EBIT	-344	-403	-469	-508	-595	-685	-776	-867	-963	-1,069	-1,187
Δ in Working Capital	205	495	375	398	429	446	452	448	476	527	585
Chg. in NWC/Revenues	0.6%	1.2%	0.8%	0.7%	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%	0.4%
Capital Expenditures	-770	-896	-925	-1,024	-1,134	-1,162	-1,229	-1,274	-1,415	-1,547	-1,718
Capex/Revenues	-2.4%	-2.2%	-1.9%	-1.8%	-1.7%	-1.5%	-1.4%	-1.3%	-1.3%	-1.3%	-1.3%
Free Cash Flows	**920**	**1,347**	**1,503**	**1,860**	**2,218**	**2,650**	**3,037**	**3,433**	**3,791**	**4,233**	**4,699**
Free Cash Flow Margin	2.9%	3.4%	3.1%	3.2%	3.3%	3.4%	3.5%	3.5%	3.5%	3.5%	3.5%
Discount factor		0.92	0.78	0.66	0.56	0.48	0.40	0.34	0.29	0.25	0.21
Discounted FCF		1,240	1,173	1,230	1,244	1,259	1,223	1,172	1,097	1,038	977

PV of Free Cash Flow	11,653
PV of Terminal Value @ 8%	10,571
Estimated EV	22,224
- Net Debt (2018E)	-1,442
+ Financial Assets	372
Fair Value	24,038
12M Target Value	**28,813**
Number of Shares (mn)	300
Target Price (TL)	**96.0**
Current Price	90.3
Upside Potential	**6%**

WACC	18.0%
Risk Free Rate	16.0%
Equity Risk Premium	5.5%
Beta	0.36
Cost of Equity	18.0%

*Source: Tacirler Investment, *Target price adjusted for shares bought back.*

Projected Financials – BIM

Balance Sheet	2016	2017	2018E	2019E	2020E
Cash	578	980	1,442	2,195	3,011
Accounts receivables	646	877	1,147	1,425	1,724
Inventory	1,119	1,456	1,814	2,263	2,745
Other current assets	312	288	400	497	601
Current assets	**2,655**	**3,602**	**4,802**	**6,380**	**8,081**
Financial investments	193	310	372	372	372
Net fixed assets	2,091	3,058	3,568	4,058	4,488
Intangible assets	7	13	16	16	16
Other non-current assets	43	43	39	49	59
Non-current assets	**2,335**	**3,423**	**3,994**	**4,494**	**4,935**
Total assets	**4,989**	**7,026**	**8,797**	**10,874**	**13,015**
Short-term financial loans	0	0	0	0	0
Accounts payables	2,625	3,377	4,209	5,432	6,588
Other short-term payables	343	454	854	1,061	1,283
Current liabilities	**2,968**	**3,831**	**5,063**	**6,493**	**7,871**
Long-term financial loans	0	0	0	0	0
Other long-term payables	120	237	263	327	396
Non-current liabilities	**120**	**237**	**263**	**327**	**396**
Shareholders' equity	**1,901**	**2,958**	**3,470**	**4,054**	**4,748**
Parent company	1,901	2,958	3,470	4,054	4,748
Minorities	0	0	0	0	0
Total liabilities & equity	**4,989**	**7,026**	**8,797**	**10,874**	**13,015**
Net debt	-578	-980	-1,442	-2,195	-3,011
Net working capital	-892	-1,209	-1,702	-2,308	-2,802
Net working capital (Operating)	-861	-1,043	-1,248	-1,744	-2,119
Invested Capital	1,323	1,978	2,029	1,859	1,737

Ratios					
Profitability					
ROE	37.6%	35.5%	37.2%	37.7%	38.4%
Net margin	3.3%	3.5%	3.7%	3.5%	3.5%
Asset turnover	4.4x	4.1x	4.1x	4.1x	4.1x
Leverage	2.6x	2.5x	2.5x	2.6x	2.7x
ROA	14.7%	14.4%	15.1%	14.4%	14.1%
ROIC	46.4%	49.6%	57.1%	69.0%	86.7%
Leverage					
Financial debt/Total assets	0%	0%	0%	0%	0%
Net debt/Equity	-0.30	-0.33	-0.42	-0.54	-0.63
Net debt/EBITDA	-0.58	-0.76	-0.79	-1.02	-1.19

Income statement	2016	2017	2018E	2019E	2020E
Revenues	**20,072**	**24,779**	**32,191**	**40,008**	**48,403**
Gross profit	3,363	4,225	5,702	6,962	8,326
Operating expenses	2,580	3,186	4,214	5,217	6,299
Operating profit	783	1,039	1,488	1,745	2,027
EBITDA	**997**	**1,296**	**1,828**	**2,150**	**2,522**
Other income, net	26	22	8	33	37
Financial income, net	40	35	58	68	131
Earnings before taxes	849	1,096	1,554	1,846	2,196
Tax expense	178	233	359	427	508
Net earnings	**671**	**863**	**1,194**	**1,419**	**1,688**

Cashflow statement					
EBITDA	**997**	**1,296**	**1,828**	**2,150**	**2,522**
Taxes Paid	165	222	344	403	469
Capital expenditures	555	610	770	896	925
Chg. in NWC	-253	-182	-205	-495	-375
Free cashflows to firm	**530**	**646**	**920**	**1,347**	**1,503**

Growth & margins					
Revenues	15.2%	23.5%	29.9%	24.3%	21.0%
EBITDA	15.2%	29.9%	41.1%	17.6%	17.3%
Net earnings	15.0%	28.6%	38.4%	18.8%	18.9%
Gross margin	16.8%	17.1%	17.7%	17.4%	17.2%
Operating margin	3.9%	4.2%	4.6%	4.4%	4.2%
EBITDA margin	5.0%	5.2%	5.7%	5.4%	5.2%
Net margin	3.3%	3.5%	3.7%	3.5%	3.5%
Free cashflow margin	2.6%	2.6%	2.9%	3.4%	3.1%

Per share (TL)					
EPS	2.21	2.84	3.93	4.68	5.56
BVPS	6.26	9.74	11.43	13.35	15.64
DPS	1.10	1.50	1.90	2.75	3.27

Valuation					
P/E	40.9x	31.8x	23.0x	19.3x	16.2x
P/BV	14.4x	9.3x	7.9x	6.8x	5.8x
EV/EBITDA	26.7x	20.2x	14.0x	11.6x	9.5x
EV/Sales	1.3x	1.1x	0.8x	0.6x	0.5x
Dividend Yield	1.2%	1.7%	2.1%	3.0%	3.6%
Free cashflow yield	1.9%	2.4%	3.4%	4.9%	5.5%

Source: Tacirler Investment

** All figures are stated in millions of TL unless otherwise stated.*

Bizim Toptan

Step-by-step improvement is seen

Bizim Toptan has borne the fruits of the restructuring in the product and customer mix through substantial increase in traffic and sales density, prompting 32% revenue growth and 270bp EBITDA margin gain in 9M18. The shift from the traditional channel and prudent approach in offering discounts to wholesalers have also helped substantial revenue growth. At the net margin level, higher interest expenses create a burden and the recovery is more limited compared to historic levels. Still, we believe the new management has maintained credibility after the outstanding results in 9M18, thus a re-rating in shares might be possible once the financing costs are somewhat reduced. Thus, we upgrade our rating to BUY with TL10 per share target price.

Substantial LFL growth exceeding expectations in 9M18 – New levels of revenue/sqm (up 28% in 9M18) and gross margin (up 260bp in 9M18) have been settled in 2018E after the low base in 2017; thanks to the restructuring in the wholesale segment with lower discounts offered, SKU optimization and 300bp larger contribution of higher margin Horeca, individual and corporate segments (up to 33%). Additionally, Bizim Toptan's more favorable pricing than competitors in 3Q18 and assortments more aligned with consumer preferences have prompted an increase in traffic, with active accounts up 33% in 9M18. Inflationary support yet had a smaller effect on LFL growth as compared to other retailers, while the Company gained market share from the traditional channel. Our expectation is slower y/y growth in sales density in 4Q18, given weaker tobacco sales with high base, while robust growth in the main category sales should continue. For 2019, given that most of the benefits of restructuring were seen in 2018, we expect 17% revenue growth, after our expectation of 28% growth in 2018.

Benefits of restructuring are finally seen in margins – The recovery in EBITDA margin, 270bp in 9M18, 200bp y/y in 3Q18, back to 2012 levels was achieved through the successful execution of revenue mix, inventory gain and IFRS 18 impact particularly in 3Q18. Stripping out the 30bp one-off inventory gain effect, we expect 3.3% EBITDA margin in 2019E and maintain 3.3% as the sustainable level. Unlike the operational improvement, the net margin of Bizim Toptan 0.6% for 2019E is below the historic levels before 2013, due to higher financing costs. A potential downswing in interest rates should also help to improve the bottomline.

2.1% dividend yield in 2019E, after the robust earnings growth - We expect TL0.15 dividend per share based on 2018 earnings.

Rating	BUY
Target Price	TL10
Return potential	39%

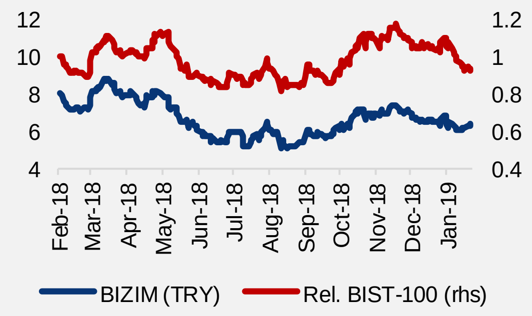
Share Data	
Ticker:	**BIZIM TI**
Share price (as of 04-02-2019)	7.2
Share price (52 week range)	5.0 / 8.8
Market cap. (TL mn - USD mn)	432 - 83
# of shares (mn) & free float	60.0 - 46%

Avg. trading volume	1M	3M	12M
USD mn	0.3	0.3	0.4

Price performance	1M	3M	Y-t-D
TL	12%	4%	6%
USD	16%	9%	7%
Rel. to BIST-100	-3%	-4%	-5%

Forecasts (TL mn)	2018E	2019E	2020E
Revenues	3,711	4,338	5,087
EBITDA	134	143	170
Net Earnings	19	27	30

Valuation	2018E	2019E	2020E
P/E	22.3x	16.0x	14.6x
P/BV	3.5x	3.1x	2.8x
EV/EBITDA	1.3x	0.8x	0.6x
EV/Sales	0.1x	0.1x	0.1x
Dividend Yield	0.0%	2.1%	3.0%



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Valuation

Our DCF valuation incorporate the major changes in operational figures and WACC assumptions of 16% risk-free-rate, 5.5% ERP, 0.95 Beta and terminal growth rate of 8%. Our valuation suggests TL10/share target price, adjusted for the shares bought back. Bizim Toptan trades 2019E at EV/EBITDA adjusted 3.7x and 16x P/E, at 41% discount and 6% premium to international peers.

Bizim Toptan - Discounted cash flow analysis

TL mn	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	**3,711**	**4,338**	**5,087**	**5,810**	**6,545**	**7,321**	**8,130**	**8,966**	**9,797**	**10,711**	**11,709**
y/y growth	28.1%	16.9%	17.3%	14.2%	12.6%	11.9%	11.1%	10.3%	9.3%	9.3%	9.3%
EBITDA	**134**	**143**	**170**	**194**	**220**	**243**	**272**	**300**	**328**	**358**	**391**
EBITDA Margin	3.6%	3.3%	3.3%	3.3%	3.4%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
EBITDA Adj.*	**28**	**30**	**42**	**52**	**60**	**72**	**82**	**90**	**98**	**107**	**117**
EBITDA Margin Adj.	0.7%	0.7%	0.8%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Taxes on EBIT Adj.	0	1	-1	-2	-2	-3	-4	-4	-5	-5	-6
Δ in Working Capital	26	50	-9	17	42	45	47	48	48	53	58
Chg. in NWC/Revenues	0.7%	1.1%	-0.2%	0.3%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%
Capital Expenditures	-33	-43	-51	-58	-59	-66	-73	-81	-88	-96	-105
Capex/Revenues	-0.9%	-1.0%	-1.0%	-1.0%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%
Free Cash Flows	**20**	**37**	**-18**	**10**	**41**	**48**	**51**	**53**	**53**	**59**	**64**
Free Cash Flow Margin	0.5%	0.8%	-0.4%	0.2%	0.6%	0.7%	0.6%	0.6%	0.5%	0.5%	0.5%
Discount factor		0.91	0.75	0.62	0.51	0.42	0.35	0.29	0.24	0.20	0.16
Discounted FCF		34	-14	6	21	20	18	15	13	11	10

PV of Free Cash Flow	135
PV of Terminal Value @ 8%	84
Estimated EV	219
- Net Debt (2018)	-129
+ Other Receivables (Holding)	130
Fair Value	478
12M Target Value	**590**
Number of Shares (mn)	58
Target Price (TL)	**10.0**
Current Price	7.2
Upside Potential	**39%**

WACC	21.2%
Risk Free Rate	16.0%
Equity Risk Premium	5.5%
Beta	0.95
Cost of Equity	21.2%

Source: Tacirler Investment [1]EBITDA is adjusted for the due date expense and credit card commission expense. [2]Target price adjusted for shares bought back.

Projected Financials – Bizim Toptan

Balance Sheet	2016	2017	2018E	2019E	2020E
Cash	79	227	147	183	163
Accounts receivables	102	40	51	59	70
Inventory	249	249	271	317	438
Other current assets	11	13	142	164	183
Current assets	**441**	**529**	**610**	**724**	**854**
Financial investments	0	0	0	0	0
Net fixed assets	104	143	143	153	165
Intangible assets	28	28	30	30	30
Other non-current assets	6	9	10	12	14
Non-current assets	**138**	**180**	**183**	**195**	**209**
Total assets	**579**	**709**	**793**	**919**	**1,063**
Short-term financial loans	7	9	6	6	6
Accounts payables	392	540	599	703	826
Other short-term payables	15	25	39	45	53
Current liabilities	**414**	**575**	**643**	**754**	**885**
Long-term financial loans	12	16	12	6	0
Other long-term payables	16	13	16	19	22
Non-current liabilities	**27**	**29**	**28**	**25**	**22**
Shareholders' equity	**138**	**106**	**122**	**140**	**157**
Parent company	138	106	122	140	157
Minorities	0	0	0	1	2
Total liabilities & equity	**579**	**709**	**793**	**919**	**1,063**
Net debt	-61	-202	-129	-171	-157
Net working capital	-45	-264	-174	-208	-187
Net working capital (Operating)	-41	-252	-277	-327	-318
Invested Capital	77	-96	-7	-31	-1

Ratios					
Profitability					
ROE	1.0%	-24.9%	17.0%	20.6%	20.0%
Net margin	0.0%	-1.0%	0.5%	0.6%	0.6%
Asset turnover	4.7x	4.5x	4.9x	5.1x	5.1x
Leverage	4.2x	5.3x	6.6x	6.5x	6.7x
ROA	0.2%	-4.7%	2.6%	3.1%	3.0%
ROIC	5.4%	n.m.	n.m.	n.m.	n.m.
Leverage					
Financial debt/Total assets	3%	4%	2%	1%	1%
Net debt/Equity	-0.44	-1.91	-1.06	-1.23	-1.00
Net debt/EBITDA	-0.90	-4.86	-0.96	-1.20	-0.92

Income statement	2016	2017	2018E	2019E	2020E
Revenues	**2,793**	**2,896**	**3,711**	**4,338**	**5,087**
Gross profit	241	245	389	448	521
Operating expenses	191	223	282	338	389
Operating profit	49	21	108	110	131
EBITDA	**68**	**42**	**134**	**143**	**170**
EBITDA adj.[2]	**25**	**-17**	**28**	**30**	**42**
Other income, net	-35	-37	-41	-34	-51
Financial income, net	-12	-22	-41	-41	-43
Earnings before taxes	2	-38	26	35	38
Tax expense	1	-8	6	8	8
Net earnings	**1**	**-30**	**19**	**27**	**30**

Cashflow statement					
EBITDA adj.	**25**	**-17**	**28**	**30**	**42**
Taxes Paid	1	-8	0	-1	1
Capital expenditures	20	46	33	43	51
Chg. in NWC	-28	-210	-26	-50	9
Free cashflows to firm	**32**	**155**	**20**	**37**	**-18**

Growth & margins					
Revenues	8.9%	3.7%	28.1%	16.9%	17.3%
EBITDA	-4.8%	-38.5%	n.m.	6.8%	19.3%
Net earnings	n.m.	n.m.	n.m.	39.1%	10.0%
Gross margin	8.6%	8.4%	10.5%	10.3%	10.2%
Operating margin	1.8%	0.7%	2.9%	2.5%	2.6%
EBITDA margin	2.4%	1.4%	3.6%	3.3%	3.3%
EBITDA margin adj.	0.9%	-0.6%	0.7%	0.7%	0.8%
Net margin	0.0%	-1.0%	0.5%	0.6%	0.6%
Free cashflow margin	1.1%	5.3%	0.5%	0.8%	-0.4%

Per share (TL)					
EPS	0.02	-0.51	0.32	0.45	0.49
BVPS	2.29	1.76	2.03	2.33	2.61
DPS	0.07	0.00	0.00	0.15	0.21

Valuation					
P/E	n.m.	n.m.	22.3x	16.0x	14.6x
P/BV	3.1x	4.1x	3.5x	3.1x	2.8x
EV/EBITDA	5.5x	5.5x	1.3x	0.8x	0.6x
EV/EBITDA adj.[2]	15.0x	n.m.	6.2x	3.7x	2.5x
EV/Sales	0.1x	0.1x	0.1x	0.1x	0.1x
Dividend Yield	0.9%	0.0%	0.0%	2.1%	3.0%
Free cashflow yield	7.4%	35.8%	4.7%	8.5%	-4.2%

Source: Tacirler Investment

[1] All figures are stated in millions of TL unless otherwise stated. [2] EBITDA adjusted for credit card commission and due date expense.

Migros

An opportunity with a long term view

Migros has been among the worst performers in the last one-year period, given its exposure to EUR denominated debt and sharp TL depreciation. The operational success was not fully seen at the bottomline in 9M18, due to FX losses, while the management put efforts to somewhat reduce the EUR based debt. We still see Migros as a long-term opportunity, owing to potential value creation through asset disposals and free cash flow generation. Therefore, we keep our BUY rating with TL27 per share price.

Efforts on deleveraging yet to reduce vulnerability to TL weakness– Migros's management has put efforts to reduce the Euro denominated debt by 9% to EUR610mn ytd in 9M18 and issued TL196mn amounted bonds in July and October, while EBRD has provided TL loans with EUR60mn equivalent amount in Dec'18. Additionally, total divestitures since 4Q17 have prompted TL230mn cash inflow whereas TL105mn paid for the acquisition of 73 Uyum and Makro market stores in Mar'18. Given the deceleration in real estate market, we believe the large scaled asset disposals might take longer than initially expected and do not expect a major fall in the short FX position of EUR540mn and net debt/EBITDA at 3.0x in 2018E. Note that the management initially aimed TL500mn worth of asset disposals in the next couple of years, after the Kipa acquisition in 2017.

Further room for growth in operational profitability – The successful restructuring and synergies with Kipa stores, inorganic growth through the addition of Uyum & Makro stores in 2Q18, inflationary support and store openings presumably will all contribute to 22% revenue growth and 60bp margin gain in 2018E. We expect similar revenue growth and margin level, adjusting for the due date expense in 2019, thanks to sustained inflationary support in 1H19, further synergies to be seen, compensating for the CPI-linked increase in operating expenses. Excluding the below the EBIT line costs, we expect EBITDA margin to decline 50bp to 5.3%.

Net earnings to remain in negative territory given potential FX losses in 2019E – We expect FX losses to dent the bottomline in 2019, due to our assumption of EUR/TL at 7.31 implying a 20% TL depreciation. Given the volatility in TL, underperformance in shares might continue in the medium term, in our view. Also note that BC Partners continue to hold 23% stake in Migros.

Rating	**BUY**
Target Price	TL27
Return potential	58%

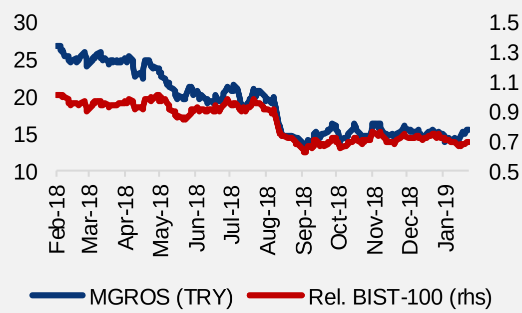
Share Data	
Ticker:	**MGROS TI**
Share price (as of 04-02-2019)	17.1
Share price (52 week range)	13.0 / 26.7
Market cap. (TL mn - USD mn)	3,089 - 592
# of shares (mn) & free float	181.1 - 36%

Avg. trading volume	**1M**	**3M**	**12M**
USD mn	5.4	4.2	3.7

Price performance	**1M**	**3M**	**Y-t-D**
TL	21%	6%	14%
USD	25%	10%	16%
Rel. to BIST-100	5%	-3%	2%

Forecasts (TL mn)	**2018E**	**2019E**	**2020E**
Revenues	18,782	22,669	26,383
EBITDA	1,084	1,207	1,423
EBITDA adj.	697	904	1,027
Net Earnings	-656	-638	-396

Valuation	**2018E**	**2019E**	**2020E**
P/E	n.m.	n.m.	n.m.
P/BV	3.9x	19.5x	n.m.
EV/EBITDA	5.9x	5.5x	4.7x
EV/EBITDA adj.	9.1x	7.4x	6.6x
EV/Sales	0.3x	0.3x	0.3x
Dividend Yield	0.0%	0.0%	0.0%



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Valuation

Our DCF valuation incorporate the major changes in operational figures and WACC assumptions of 16% risk-free-rate, 5.5% ERP, 1.1 Beta and terminal growth rate of 8%. Our valuation suggests TL27/share target price.

Migros discounted cash flow analysis

TL mn	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	**18,782**	**22,669**	**26,383**	**30,061**	**33,820**	**37,566**	**41,462**	**45,545**	**50,026**	**54,986**	**60,482**
y/y growth	22%	21%	16%	14%	13%	11%	10%	10%	10%	10%	10%
EBITDA	**1,084**	**1,207**	**1,423**	**1,622**	**1,824**	**2,026**	**2,237**	**2,457**	**2,692**	**2,958**	**3,252**
EBITDA Margin	5.8%	5.3%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
EBITDA adjusted	**697**	**904**	**1,027**	**1,141**	**1,283**	**1,425**	**1,573**	**1,728**	**1,891**	**2,078**	**2,285**
EBITDA Margin adj.	3.7%	4.0%	3.9%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Taxes on EBIT adjusted	-89	-121	-138	-137	-154	-171	-189	-207	-225	-247	-272
Δ in Working Capital	92	389	344	327	388	387	402	421	465	512	567
Chg. in NWC/Revenues	0.5%	1.7%	1.3%	1.1%	1.1%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%
Capital Expenditures	-440	-476	-554	-601	-676	-751	-829	-911	-1,001	-1,100	-1,210
Capex/Revenues	-2.3%	-2.1%	-2.1%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
Free Cash Flows	**261**	**697**	**680**	**730**	**841**	**890**	**957**	**1,031**	**1,131**	**1,243**	**1,371**
Free Cash Flow Margin	1.4%	3.1%	2.6%	2.4%	2.5%	2.4%	2.3%	2.3%	2.3%	2.3%	2.3%
WACC	17.8%	17.8%	17.8%	18.1%	18.1%	18.1%	18.1%	18.1%	18.1%	18.1%	18.1%
Discount factor		0.92	0.78	0.66	0.56	0.47	0.40	0.34	0.29	0.24	0.21
Discounted FCF		642	532	483	471	422	385	351	326	303	283

PV of Free Cash Flow	4,198
PV of Terminal Value @ 8%	2,991
Estimated EV (YE18)	7,188
- Net Debt (YE18)	3,283
Fair Value	3,906
12M Target Value	4,859
Number of Shares (mn)	181
Target Price (TL)	**27.0**
Current Price	17.1
Upside Potential	**58%**

WACC -L/T	**18.1%**
Risk Free Rate	16.0%
Equity Risk Premium	5.5%
Beta	1.1
Cost of Equity	22.1%

Source: Tacirler Investment, [1]EBITDA is adjusted for the due date expense

TACİRLER INVESTMENT

Projected Financials - Migros

Balance Sheet	2016	2017	2018E	2019E	2020E
Cash	1,156	1,617	1,118	763	496
Accounts receivables	58	97	119	143	167
Inventory	1,212	1,908	1,862	2,258	2,626
Other current assets	45	154	186	225	262
Current assets	**2,471**	**3,776**	**3,286**	**3,389**	**3,551**
Financial investments	1	1	1	1	1
Net fixed assets	1,268	3,740	3,708	3,829	3,982
Intangible assets	2,360	2,414	2,473	2,473	2,473
Other non-current assets	176	371	439	448	456
Non-current assets	**3,805**	**6,526**	**6,621**	**6,750**	**6,912**
Total assets	**6,277**	**10,303**	**9,907**	**10,139**	**10,463**
Short-term financial loans	341	1,038	1,016	948	1,013
Accounts payables	2,664	3,954	4,022	4,832	5,568
Other short-term payables	317	524	494	596	693
Current liabilities	**3,321**	**5,516**	**5,532**	**6,376**	**7,274**
Long-term financial loans	2,623	2,874	3,385	3,371	3,154
Other long-term payables	140	385	193	233	272
Non-current liabilities	**2,763**	**3,259**	**3,579**	**3,604**	**3,426**
Shareholders' equity[1]	**193**	**1,527**	**797**	**158**	**-237**
Parent company	193	1,527	797	158	-238
Minorities	0	0	0	0	1
Total liabilities & equity	**6,277**	**10,303**	**9,907**	**10,139**	**10,463**
Net debt	1,808	2,295	3,283	3,557	3,671
Net working capital	-1,665	-2,319	-2,349	-2,802	-3,206
Net working capital (Operating)	-1,393	-1,949	-2,041	-2,431	-2,775
Invested Capital	2,000	3,822	4,079	3,715	3,434

Ratios	2016	2017	2018E	2019E	2020E
Profitability					
ROE	n.m.	59.6%	n.m.	n.m.	n.m.
Net margin	-2.7%	3.3%	-3.5%	-2.8%	-1.5%
Asset turnover	1.8x	1.9x	1.9x	2.3x	2.6x
Leverage	17.0x	9.6x	8.7x	21.0x	-261.9x
ROA	-5.0%	6.2%	-6.5%	-6.4%	-3.8%
ROIC	10.9%	7.9%	8.0%	11.0%	13.7%
Leverage					
Financial debt/Total assets	47%	38%	44%	43%	40%
Net debt/Equity	9.38	1.50	4.12	22.45	-15.48
Net debt/EBITDA	2.88	2.88	3.03	2.95	2.58

Income statement	2016	2017	2018E	2019E	2020E
Revenues	**11,059**	**15,344**	**18,782**	**22,669**	**26,383**
Gross profit	2,953	4,082	5,189	6,187	7,211
Operating expenses	2,525	3,554	4,400	5,335	6,188
Operating profit	428	528	789	852	1,023
EBITDA	**627**	**798**	**1,084**	**1,207**	**1,423**
EBITDA adj.[1]	**490**	**557**	**697**	**904**	**1,027**
Other income, net	-139	868	-360	-305	-418
Financial income, net	-524	-793	-1,260	-1,076	-880
Earnings before taxes	-236	603	-831	-529	-275
Tax expense	64	94	-175	109	120
Net earnings	**-300**	**513**	**-656**	**-638**	**-396**

Cashflow statement	2016	2017	2018E	2019E	2020E
EBITDA adj.	490	557	697	904	1,027
Taxes Paid	58	58	89	121	138
Capital expenditures	297	399	440	476	554
Chg. in NWC	-320	-556	-92	-389	-344
Free cashflows to firm	**454**	**657**	**261**	**697**	**680**

Growth & margins	2016	2017	2018E	2019E	2020E
Revenues	17.8%	38.7%	22.4%	20.7%	16.4%
EBITDA	12.5%	27.2%	35.8%	11.4%	17.9%
Net earnings	n.m.	n.m.	n.m.	n.m.	n.m.
Gross margin	26.7%	26.6%	27.6%	27.3%	27.3%
Operating margin	3.9%	3.4%	4.2%	3.8%	3.9%
EBITDA margin	5.7%	5.2%	5.8%	5.3%	5.4%
EBITDA margin adj.	4.4%	3.6%	3.7%	4.0%	3.9%
Net margin	-2.7%	3.3%	-3.5%	-2.8%	-1.5%
Free cashflow margin	4.1%	4.3%	1.4%	3.1%	2.6%

Per share (TL)	2016	2017	2018E	2019E	2020E
EPS	-1.66	2.83	-3.62	-3.52	-2.18
BVPS	1.06	8.43	4.40	0.88	-1.31
DPS	0.00	0.00	0.00	0.00	0.00

Valuation	2016	2017	2018E	2019E	2020E
P/E	n.m.	6.0x	n.m.	n.m.	n.m.
P/BV	16.0x	2.0x	3.9x	19.5x	n.m.
EV/EBITDA	7.8x	6.7x	5.9x	5.5x	4.7x
EV/EBITDA adj.	10.0x	9.7x	9.1x	7.4x	6.6x
EV/Sales	0.4x	0.4x	0.3x	0.3x	0.3x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Free cashflow yield	14.7%	21.3%	8.5%	22.6%	22.0%

Source: Tacirler Investment

[1]All figures are stated in millions of TL unless otherwise stated. [1] EBITDA is adjusted for due date expense

SOK

Lucrative Prospects

SOK has capitalized on the evolution of organized retail while streamlining the business model to enhance scale and efficiency, since the management change in 2015. As well as the operational improvement after the refurbishment in half of the stores, store count reached above 6,300, implying a 28% CAGR within 2015-2018E. The financial burden on the Company is also largely reduced, thanks to the proceeds of the IPO in May'18. We believe SOK is well positioned to benefit from the lucrative growth in modern retail and initiate coverage with a BUY rating and TL14.5 target price.

Aggressive growth theme is on track – SOK, with 5% potential value share in food retail in 2019E, has seen a dramatic growth in its store network to 6,364 in 2018, representing the highest store count after A101 and BIM. The management maintains their target to double store count within 2017-2022, implying around 1,000 p.a. store roll-out until 2022. We project a 25% revenue CAGR within 2018-2021, owing to store expansion and improving traffic figures with the transition to organized retail as well as sustained LFL growth through maturing stores below three years of age.

Lower financing costs are likely to offset EBITDA margin erosion in 2019E – We expect 180bp EBITDA margin expansion in 2018, thanks to temporary inventory gains, sustained LFL growth and operating leverage. We factor in, however, a 40bp contraction in EBITDA margin in 2019E, owing to higher personnel costs, due to minimum wage increase and absence of inventory gains. We believe further margin erosion will be contained, thanks to possibly lower packaging expenses after the fees introduced in Jan'19. Furthermore, the potential downtrend in interest rates will augur well for financial expenses primarily in 2H19. Excluding tax income and before IPO interest expenses, we expect a 44% earnings CAGR within 2018-2021.

Dividend payment is likely to begin in 2020E – SOK's net debt position declined to TL106mn in 9M18, suggesting 0.2x net debt/EBITDA, due to TL2.6bn cash inflow to the entity with the IPO. We expect improving cash position going forward, thanks to operational improvement and negative working capital.

Potential exit of shareholders is a risk factor – Turkish Retail, Templeton, Gozde Girisim and Turkish Holdings have the restriction to sell their shares, below the IPO price of TL10.5 until May'19. SOK also holds 20.6mn shares, implying a 3.4% stake.

Rating	**BUY**
Target Price	TL14.5
Return potential	29%

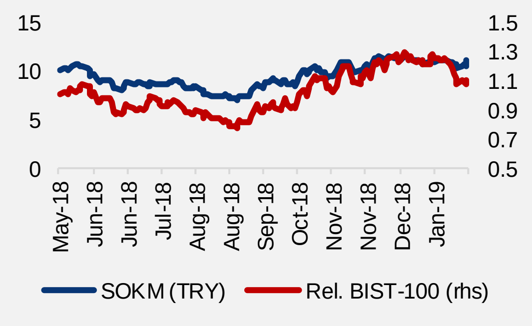
Share Data	
Ticker:	**SOKM TI**
Share price (as of 04-02-2019)	11.3
Share price (52 week range)	7.0 / 11.5
Market cap. (TL mn - USD mn)	6,884 - 1,319
# of shares (mn) & free float	611.9 - 36%

Avg. trading volume	**1M**	**3M**	**12M**
USD mn	1.4	2.8	2.8

Price performance	**1M**	**3M**	**Y-t-D**
TL	3%	21%	5%
USD	7%	26%	6%
Rel. to BIST-100	-10%	11%	-7%

Forecasts (TL mn)	**2018E**	**2019E**	**2020E**
Revenues	12,783	16,272	20,310
EBITDA	670	780	1,012
Adjusted EBITDA	240	342	545
Net Earnings	137	142	285

Valuation	**2018E**	**2019E**	**2020E**
P/E	50.4x	48.6x	24.2x
P/BV	21.0x	14.7x	9.7x
EV/EBITDA	10.4x	8.4x	5.9x
EV/EBITDA adj.	29.0x	19.1x	10.9x
EV/Sales	0.5x	0.4x	0.3x
Dividend Yield	0.0%	0.0%	0.6%



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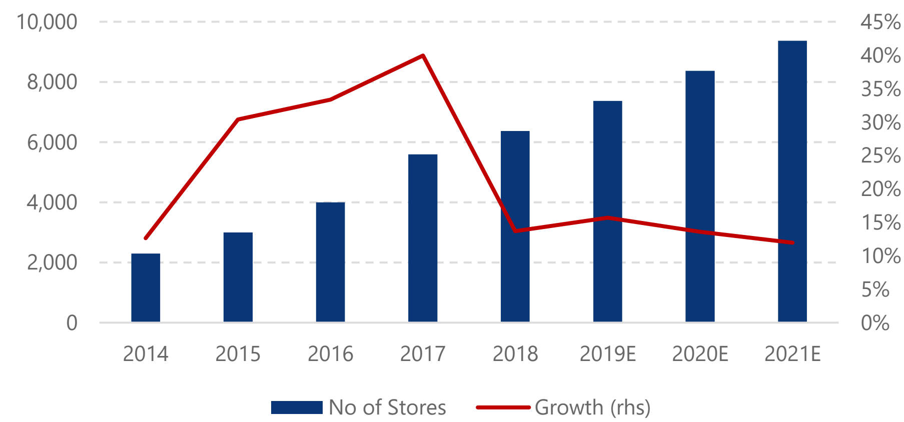
Aggressive growth theme is on track

SOK has capitalized on the evolution of modern retail while streamlining the business model to enhance scale and efficiency, since the change in management in 2015. As well as the operational improvement after the refurbishment in half of the stores, store count reached above 6,300, implying a 28% CAGR within 2015-2018E**.** In the meantime, total store count of BIM and A101 reached 7,478 and 8,000, respectively. The management maintains the target to double the store network between 2017 and 2022, implying 1,000 p.a. store roll-out. We expect store count to reach 9,364 in SOK, 10,000 in A101 and 9,423 in BIM by the end of 2021. Thus, **we project a 25% revenue CAGR within 2018-2021, owing to store expansion, improving traffic figures along with the transition to organized retail and sustained LFL growth through maturing stores below three years of age. Our estimates are in line with the management targets - double store count and triple revenues -between 2017 and 2022.**

Number of Stores versus Growth



Source: The Company and Tacirler Investment

SOK's customer traffic figures have been impressing with 3-4% growth attained in the last couple of years, thanks to relatively younger store network, with old stores in LFL analysis representing only 59% of total stores (72% in BIM where traffic is lower at 1%). Note that the daily traffic per store at 446 is still lower than BIM's traffic figure of 700 as of 3Q18. We expect slightly lower traffic growth for SOK at 2.5% in 2019; due to slower GDP growth and the potential increase in unemployment rates. We argue that the recent increase of 26% in minimum wage was mostly related to the steep increase in inflation, hence its effect on basket size and traffic growth should be limited.

SOK's like-for-like basket size growth has seen a different trend in comparison to BIM, due to a more diversified product portfolio with 1,500 SKUs, more than double of BIM's SKUs at 700; and inclusion of the tobacco segment with 13% revenue share. Additionally, fresh fruits and vegetables represent 6% of SOK's product portfolio, bringing additional traffic to stores vs. 2% share in BIM. Finally, private label products have a lower contribution of 27% in SOK vs. 67% in BIM (all figures based on 2018E data). Hence, SOK's LFL basket size growth historically had a higher correlation with CPI, as in Migros, while internal inflation has historically been 300-500bp below CPI. Given the temporary availability issues with suppliers in 1H18, a lower LFL basket size growth recorded at 10.5% in 9M18, versus 14.2% average inflation. The LFL basket size growth reached 15.7% in 3Q18, driven by the uptrend in CPI.

Comparison of BIM and SOK

	BIM	SOK		BIM	SOK
# of SKUs	**700**	**1,500**	Revenue CAGR 2015-2018	23%	36%
% Private label in revenues	67%	27%	**Revenue CAGR 2018-2021**	**21%**	**25%**
% Tobacco in revenues	0%	13%			
% Fresh fruits & vegetables	2%	6%	Gross Margin	17.7%	22.9%
% of Non-Food Spot Products	5%	7%	Personnel Expense/Sales	6.4%	9.1%
Internal Inflation	Slightly higher than processed food inflation	3-5% below CPI	Rent Expense/Sales	2.4%	4.3%
			EBITDA Margin	**5.7%**	**5.2%**
% of old stores/total stores	72%	59%	**Net Margin**	**3.7%**	**1.1%**
LFL basket size growth	17.7%	12.4%	Capex/sales	2.4%	2.5%
LFL traffic growth	1.1%	3.6%	WC/Sales	-3.9%	-10.0%
LFL growth	**19.0%**	**16.6%**	FCF/sales	2.9%	-0.8%
Revenue/store	4,442	2,093	**ROE (2018 only)**	**34.4%**	**41.7%**
Change in Revenue/store	18%	8%	Leverage	2.53	9.22
			Asset Turnover	3.66	4.24
Store number	**7,478**	**6,364**	**ROIC (2018 only)**	**57.1%**	**7.6%**
Selling space (Ksqm)	**2,264**	**1,376**			
Store number CAGR 2015-2018	11%	28%			
Store number CAGR 2018-2021	8%	14%			

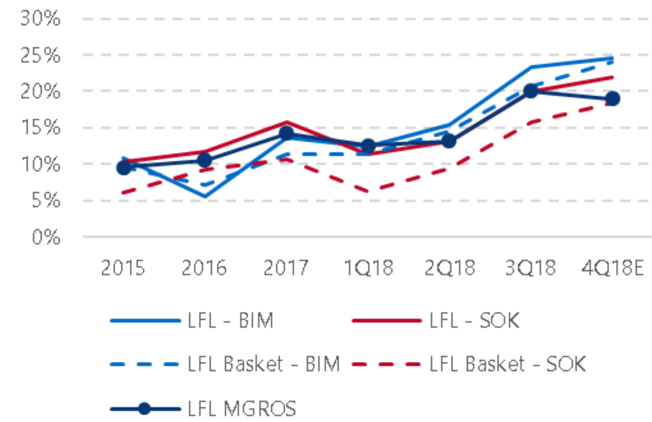
Source: The Companies and Tacirler Investment [1]Old stores included in LFL analysis. [2]All figures in 2018E, unless otherwise stated.

The inflation has seen a gradual downward pattern since the peak in October, driven by the diminishing volatility in TL, tax incentives concerning some sectors and fight against inflation campaign on some products. The retailers have also participated in the campaign with around 4-7% of their portfolio. In line with the slight decline in inflation, we also expect some easing in the like-for-like basket growth for SOK from the higher October figure. Still, we expect LFL basket size growth to reach 18.4% in 4Q18, versus 15.7% recorded in 3Q18. We foresee smoother LFL basket size growth at around 15% in 2019E (12.4% in 2018E) compared to 2H18 (17%), due to potential easing inflation, particularly in 2H19.

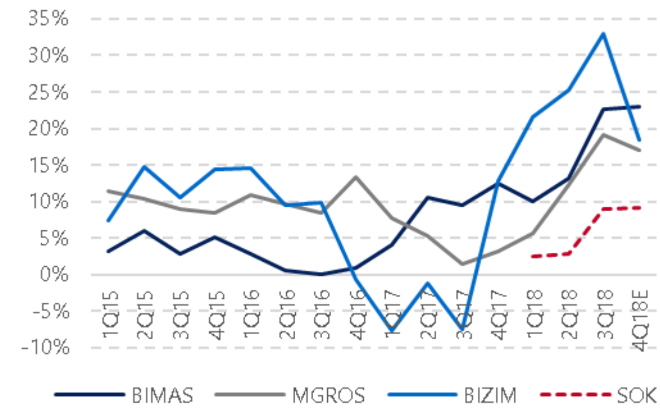
Although LFL growth figures were lifted by inflation and sustained traffic growth (16.6% in 2018E), we expect a slower growth in revenue/store due to the dilution of 498 UCZ stores acquired in 2018. Note that the loss making UCZ stores were closed and 260 stores were converted to SOK mini format, offering higher SKUs and revenue/store. All in all, we forecast 34% revenue growth in 2018, due to 25% growth in average number of stores and 8% rise in revenue/store (including SOK mini). Considering the dilution of new stores, representing 36% of total stores in

2019E, we project 11% growth in revenue/store. Thus, **for 2019, we expect 27% revenue growth, with 16% increase in the number of stores.**

Like-for-like growth



Revenue/sqm – y/y change



Source: The companies and Tacirler Investment

Lower financing costs will compensate for the EBITDA margin erosion in 2019E

The outstanding gross margin performance up 130bp to 24.2% in 9M18 was bolsteredby i) 100bp margin effect from temporary inventory gains, thanks to the price adjustment to reflect the steep increase in inflation, ii) favorable early payment terms provided by suppliers, resulting in a 25-day decline in days payables ytd in 9M18 and iii) effect of discounting of receivables/payables on gross margin. In the absence of inventory gains, we factor in a more normalized gross margin level at 20% in 4Q18. We also factor in a 20bp margin contraction at the gross margin level down to 22.7% in 2019.

We forecast 40bp decline in EBITDA margin of SOK in 2019, after a high base.

Furthermore, in our model, we factor in a 20bp rise in opex/sales ratio to 19.4%, primarily due to minimum wage increase, which influences the costs of 60% of total personnel. However, we plug in 21% personnel cost increase, below 26% increase in minimum wage, in our model given the persisting minimum wage incentives and incentives provided for new hires for corporates. We argue that the steep increase in personnel costs will be partially offset by lower increase in rent expenses and potential contraction in packaging costs. We believe below CPI increases in rent expenses will be possible, thanks to the increase in availability for rental properties, amid the weakness in the real estate market in 2019. Additionally, the regulation requiring TL25 fee per plastic bag starting from Jan 1, 2019 has reduced the bag consumption by 60-70% recently, based on media sources. Accordingly, we estimate a 20-30bp decline in packaging expenses/sales ratio from 0.4% in 2018.

Still, given the potential erosion at the gross margin and higher opex/sales ratio, **we forecast a 40bp contraction in EBITDA margin of SOK to 4.8% in 2019.** The operating leverage with sustainable double-digit revenue growth will pave the way for margin accretion post 2019, in our opinion. Our long-term EBITDA margin estimate for SOK is 5.2%, in line with the management target of 5-5.5%.

Although SOK has historically recorded higher gross margins than BIM, mainly due to higher revenue contribution of branded products, its personnel expense/sales and rent expense/sales are higher, due to comparably lower revenue per store almost half of BIM. We think the gap between SOK and BIM in revenue per store generation might remain in the next couple of years, due to continuing dilution of new stores in SOK. Additionally, SOK is renting/leasing all its stores, warehouses, vehicles and headquarter building, with the interest rate of the latest finance lease contract being much lower than current rates, while BIM mostly prefers to acquire lands for warehouse construction or stores for the File format, while vehicles are also purchased. We believe the comparison of the operational performance of both companies will be much easier with the IFRS-16 rules to be applied in 2019. Accordingly, we expect SOK to record 9.1% EBITDAR margin versus 7.7% in BIM in 2019 financials.

Key Performance Indicators

TL mn	2017	2018E	2019E	2020E	2021E	CAGR 18-21E
SOK						
Number of Stores	5,598	6,364	7,364	8,364	9,364	14%
y/y	40%	14%	16%	14%	12%	
Selling Space (Ksqm)	1,153	1,376	1,598	1,820	2,079	15%
y/y	32%	19%	16%	14%	14%	
Revenue/store	1,945	2,093	2,328	2,583	2,814	10%
y/y	1%	8%	11%	11%	9%	
% like-for-like	16%	17%	18%	15%	12%	
Revenues	**9,512**	**12,783**	**16,272**	**20,310**	**24,944**	**25%**
y/y	41%	34%	27%	25%	23%	
EBITDA	322	670	780	1,012	1,262	24%
EBITDA Adjusted	**139**	**240**	**342**	**545**	**713**	**44%**
Net Earnings	-433	137	142	285	341	
Gross Margin	21.4%	22.9%	22.7%	23.0%	23.0%	
Opex/Sales	19.7%	19.2%	19.4%	19.4%	19.2%	
EBIT Margin	1.7%	3.7%	3.3%	3.6%	3.7%	
EBITDA Margin	**3.4%**	**5.2%**	**4.8%**	**5.0%**	**5.1%**	
EBITDA Margin Adj.	**1.5%**	**1.9%**	**2.1%**	**2.7%**	**2.9%**	
Net Margin	-4.6%	1.1%	0.9%	1.4%	1.4%	
CPI Average	11.1%	16.3%	17.7%	13.9%	11.2%	
EUR/TL Average	4.1136	5.6695	6.6913	7.8707	8.6009	
EUR/TL Close	4.5155	6.0280	7.3099	8.3855	8.8048	

Source: The Company and Tacirler Investment, all in TL terms; [1]EBITDA adjusted for due date expense and credit card commissions.

Net margin of SOK has swung to positive territory since 2Q18, thanks to the proceeds of the IPO, largely reducing the net debt position with net debt/EBITDA

Excluding the tax income and before IPO interest expenses, we expect a 44% net earnings CAGR within 2018-2021.

at 0.2x in 9M18 and interest expenses. SOK also reported one-off tax income of TL317mn in 9M18, associated with its deferred tax asset amounting to TL274mn as of 9M18. For 2019, we estimate lower below the EBIT line expenses, mainly due date expenses and credit card commission expenses, based on our macro projection of a potential downswing in interest rates in 2H19. We also estimate lower tax income in 2019. All in all, we expect 20bp fall in net margin to 0.9% in 2019. **Excluding the tax income and before IPO interest expenses, we expect a 44% net earnings CAGR within 2018-2021.** We expect SOK to distribute dividends with 30% payout ratio by 2020. However, in view of the presumably strong FCF generation going forward, thanks to negative working capital and potential decline in capex/sales ratio, higher dividend pay-outs might also be possible in the long term.

Moreover, we expect capex/sales to decline 2.4% by 10bp in 2019E, as the refurbishment at the existing stores has been completed. Given that c.50% of costs are FX linked, capex per store and warehouse have increased 30% y/y to TL270K and TL4,500K by the end of 2018E. Note that 60% of capex is financed through finance lease. Finally, we forecast 10% negative WC/Sales in 2018, down 360bp, due to discounts provided by suppliers for early payment prompting a decline in days payables by 25 days ytd in 9M18.

A brief information on the ownership structure

SOK currently holds 20.6mn shares, a 3.4% stake, due to shares bought back during the price stability period after the IPO.

SOK went to public on May 18 with TL10.5 per share price, implying a total market cap of TL6.4bn and total cash inflow to SOK was TL2,645mn after the IPO. Just before the IPO Yildiz Holding increased its direct stake in SOK to 5% through restricted rights issue and injected TL351mn capital, while 36% of shares remained as free float. As of June 8, SOK bought back 33mn shares from Yildiz Holding, however, the transaction was cancelled on June 14, 2018. SOK currently holds 20.6mn shares, a 3.4% stake, due to shares bought back during the price stability period after the IPO. The Company has not disclosed any plans to sell these shares.

Yildiz Holding (5% stake) and related companies, Gozde Girisim (23% stake), Templeton (6% stake) and Turkish Holding Cooperatief (6% stake), all registered their SOKM shares at the Central Registry Agency, right after the end of the 180-day lock-up period in Nov'18. Yildiz Holding made an announcement regarding their long-term commitment in SOK after the registration. Note that Turkish Retail Investments and Ugur Demirel, the CEO of the Company have 18-month lock-up period. Also, it is worth to mention that Turkish Retail, Templeton, Gozde Girisim and Turkish Holdings have the restriction to sell their shares, below the IPO price of TL10.5 until May'19. Although the minority shareholders Templeton and Turkish Holding IV Cooperatief have not stated their intention to sell shares, a potential sale of shares in the future might create a temporary overhang on SOKM.

Ownership Structure

Shareholders	Before IPO	Post IPO
Turkish Retail Investments	50.0%	23.0%
Gozde Girisim	39.0%	23.0%
Turkish Holdings IV Cooperatief[1]	0.0%	6.0%
Templeton	10.0%	6.0%
Yildiz Holding	0.0%	5.0%
Other	1.0%	1.0%
Free Float	0.0%	36.0%

Source: The Company [1]20% of Turkish Retail Investments was owned by Turkish Holdings IV Cooperatief before the IPO,

Valuation

Our 10-year DCF valuation incorporates the aggressive store expansion and operational recovery in the first five years of the model and a more stable business model with slower revenue growth in the second five years of the model. Our terminal growth estimate is 8%. Our WACC estimate at 19% is based on 16% risk-free-rate, 5.5% ERP and 0.57 Beta. Our valuation suggests TL14.5/share target price.

SOK - Discounted cash flow analysis

TL mn	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	**12,783**	**16,272**	**20,310**	**24,944**	**30,308**	**35,847**	**41,298**	**46,593**	**51,836**	**57,343**	**63,364**
y/y growth	34%	27%	25%	23%	22%	18%	15%	13%	11%	11%	11%
EBITDA	**670**	**780**	**1,012**	**1,262**	**1,584**	**1,873**	**2,158**	**2,421**	**2,694**	**2,980**	**3,293**
EBITDA Margin	5.2%	4.8%	5.0%	5.1%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
EBITDA Adjusted	**240**	**342**	**545**	**713**	**956**	**1,179**	**1,358**	**1,519**	**1,689**	**1,869**	**2,065**
EBITDA Margin	1.9%	2.1%	2.7%	2.9%	3.2%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Taxes on EBIT adjusted	-9	-23	-58	-76	-111	-140	-162	-192	-213	-236	-261
Δ in Working Capital	-6	457	553	523	611	626	616	591	592	622	680
Chg. in NWC/Revenues	0.0%	2.8%	2.7%	2.1%	2.0%	1.7%	1.5%	1.3%	1.1%	1.1%	1.1%
Capital Expenditures	-324	-394	-453	-508	-592	-634	-661	-652	-726	-803	-887
Capex/Revenues	-2.5%	-2.4%	-2.2%	-2.0%	-2.0%	-1.8%	-1.6%	-1.4%	-1.4%	-1.4%	-1.4%
Free Cash Flows	**-98**	**382**	**586**	**651**	**864**	**1,031**	**1,152**	**1,266**	**1,342**	**1,452**	**1,597**
Free Cash Flow Margin	-0.8%	2.3%	2.9%	2.6%	2.9%	2.9%	2.8%	2.7%	2.6%	2.5%	2.5%
Discount factor		0.92	0.77	0.65	0.54	0.45	0.38	0.32	0.27	0.23	0.19
Discounted FCF		350	451	421	468	469	440	406	361	328	303

PV of Free Cash Flow	3,995
PV of Terminal Value @ 8%	2,935
Estimated EV	6,930
- Net Debt (2018)	77
+ Deferred Tax Asset (2018)	274
Fair Value	7,127
12M Target Value	**8,634**
Number of Shares (mn)	591
Target Price (TL)	**14.5**
Current Price	11.3
Upside Potential	**29%**

WACC	19.1%
Risk Free Rate	16.0%
Equity Risk Premium	5.5%
Beta	0.57
Cost of Equity	19.1%

Source: Tacirler Investment [1]EBIT and EBITDA adjusted for due date and credit card commission expenses. [2]Target price is adjusted for shares bought back.

Projected Financials - SOK

Balance Sheet	2016	2017	2018E	2019E	2020E
Cash	61	92	211	472	1,037
Accounts receivables	337	268	175	223	278
Inventory	503	636	675	861	1,072
Other current assets	41	81	23	29	37
Current assets	**942**	**1,077**	**1,084**	**1,585**	**2,423**
Financial investments	0	0	0	0	0
Net fixed assets	608	850	968	1,125	1,297
Intangible assets	672	677	680	680	680
Other non-current assets	4	6	285	363	453
Non-current assets	**1,284**	**1,532**	**1,933**	**2,168**	**2,430**
Total assets	**2,226**	**2,609**	**3,017**	**3,753**	**4,854**
Short-term financial loans	1,157	1,505	165	88	50
Accounts payables	1,665	2,193	2,134	2,825	3,643
Other short-term payables	705	794	214	273	341
Current liabilities	**3,526**	**4,492**	**2,513**	**3,185**	**4,034**
Long-term financial loans	154	204	123	32	24
Other long-term payables	77	98	53	68	84
Non-current liabilities	**231**	**302**	**176**	**99**	**109**
Shareholders' equity	**-1,531**	**-2,185**	**327**	**469**	**711**
Parent company	-1,531	-2,185	327	469	711
Minorities	0	0	0	0	0
Total liabilities & equity	**2,226**	**2,609**	**3,017**	**3,753**	**4,854**
Net debt	1,249	1,617	77	-353	-963
Net working capital	-1,488	-2,003	-1,475	-1,984	-2,597
Net working capital (Operating)	-825	-1,289	-1,284	-1,740	-2,294
Invested Capital	-281	-568	405	116	-251

Ratios

Profitability	2016	2017	2018E	2019E	2020E
ROE	n.m.	n.m.	41.7%	35.6%	48.2%
Net margin	-5.6%	-4.6%	1.1%	0.9%	1.4%
Asset turnover	3.4x	3.9x	4.5x	4.8x	4.7x
Leverage	-1.7x	-1.3x	-3.0x	8.5x	7.3x
ROA	-18.7%	-17.9%	4.9%	4.2%	6.6%
ROIC	n.m.	n.m.	7.6%	31.5%	n.m.

Leverage	2016	2017	2018E	2019E	2020E
Financial debt/Total assets	59%	66%	10%	3%	2%
Net debt/Equity	-0.82	-0.74	0.24	-0.75	-1.35
Net debt/EBITDA	11.61	5.02	0.12	-0.45	-0.95

Income statement	2016	2017	2018E	2019E	2020E
Revenues	**6,726**	**9,512**	**12,783**	**16,272**	**20,310**
Gross profit	1,325	2,034	2,923	3,699	4,665
Operating expenses	1,327	1,877	2,454	3,156	3,934
Operating profit	-3	157	468	543	731
EBITDA	**108**	**322**	**670**	**780**	**1,012**
EBITDA Adj.	-12	139	240	342	545
Other income, net	-130	-219	-381	-384	-403
Financial income, net	-237	-367	-263	-106	-92
Earnings before taxes	-370	-429	-175	53	237
Tax expense	4	5	-313	-88	-48
Net earnings	**-375**	**-433**	**137**	**142**	**285**

Cashflow statement	2016	2017	2018E	2019E	2020E
EBITDA	**-12**	**139**	**240**	**342**	**545**
Taxes Paid	-25	-5	9	23	58
Capital expenditures	356	432	324	394	453
Chg. in NWC	-374	-465	6	-457	-553
Free cashflows to firm	**31**	**177**	**-98**	**382**	**586**

Growth & margins	2016	2017	2018E	2019E	2020E
Revenues	32.6%	41.4%	34.4%	27.3%	24.8%
EBITDA	n.m.	n.m.	108.0%	16.5%	29.7%
Net earnings	0.5%	15.6%	n.m.	3.7%	100.8%
Gross margin	19.7%	21.4%	22.9%	22.7%	23.0%
Operating margin	0.0%	1.7%	3.7%	3.3%	3.6%
EBITDA margin	1.6%	3.4%	5.2%	4.8%	5.0%
EBITDA margin adjusted	-0.2%	1.5%	1.9%	2.1%	2.7%
Net margin	-5.6%	-4.6%	1.1%	0.9%	1.4%
Free cashflow margin	0.5%	1.9%	-0.8%	2.3%	2.9%

Per share (TL)	2016	2017	2018E	2019E	2020E
EPS	-0.61	-0.71	0.22	0.23	0.47
BVPS	-2.50	-3.57	0.53	0.77	1.16
DPS	0.00	0.00	0.00	0.00	0.07

Valuation	2016	2017	2018E	2019E	2020E
P/E	n.m.	n.m.	50.4x	48.6x	24.2x
P/BV	n.m.	n.m.	21.0x	14.7x	9.7x
EV/EBITDA	n.m.	26.4x	10.4x	8.4x	5.9x
EV/EBITDA adj.	n.m.	61.2x	29.0x	19.1x	10.9x
EV/Sales	1.2x	0.9x	0.5x	0.4x	0.3x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.6%
Free cashflow yield	0.4%	2.6%	-1.4%	5.5%	8.5%

Source: Tacirler Investment

[1] All figures are stated in millions of TL unless otherwise stated. EBITDA adjusted for due date and credit card commission expense. [2] ROE for 2018 is solely based on 2018 figure.

Important Disclosures

Rating Methodology

Stock ratings are based on absolute return potential of the stock, which is defined as the percentage change in target price from the current share price. All recommendations and target prices are set with a 12-month horizon. Target prices are set by using one or more of the following methodologies: DCF, Net Asset Valuation, sum of the parts model and multiple comparison.

Rating Definition

Strong Buy: The stock is expected to generate a return of more than 25% in TL terms.

Buy: The stock is expected to generate a return of 15-25% in TL terms.

Hold: The stock is expected to generate a return of less than 15% in TL terms.

Sell: The stock is expected to generate a negative return within the forecast horizon.

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