

ŞOK Marketler Ticaret A.Ş.

We attended SOKM's investor presentation, where the company's Q4 2023 financial results were evaluated, along with its current operations and future outlook. SOKM stands out with its digital transformation and innovative retail approaches, approaching its 2023 targets and supporting strategic plans that underpin its growth expectations for 2024.

Key takeaways of the meeting

The Cepte ŞOK business model... It is an innovative retail solution offered on the company's mobile platform and is a significant part of the company's digital transformation. With low investment and operational costs, and by utilizing existing stores, the supply chain, and warehouses, the brand's cost efficiency is increased, while customer access is expanded through an enlarged distribution network and delivery capacity in 81 provinces. Cepte ŞOK, which offers its customers a variety of order and payment options and reinforces its sustainability commitment with 100% electric vehicles and couriers, enhances customer loyalty and market position, positively impacting the company's growth rate and revenue streams.

The ŞOK 2.0 concept design... As part of a strategy to increase customer satisfaction, expand market share, and boost revenues, a new store concept has been envisioned, and the interior design and product presentation have been updated to be more premium.

Results close to 2023 targets... The company's turnover for 2023 increased by 79.7% on an annual basis, reaching 17,958 mn TL, in line with the target of an 80% increase. While a target range of 7.5% to 8% was set for EBITDA margin, the actual figure recorded was 7%, slightly below the lower limit of the target. Regarding investments, while approximately 2.5 bn TL was planned, the investments made amounted to 2 bn TL, which is 20% below the target. While aiming to open 750 new stores, approximately 90% of this goal was achieved with 674 new stores opened; however, considering 230 stores closed due to an earthquake, the net change in stores amounted to 444.

2024 outlook... For the year 2024, the company forecasts a 65% increase in net sales, including a 5% deviation allowance. A target of 6% has been set for the EBITDA margin, with a tolerance of 0.5% considered. Regarding investments, it is expected that between 2.5% and 3% of the company's turnover will be allocated to investments. These targets can be considered as part of the company's ongoing growth strategy.

SOKM

Share Data

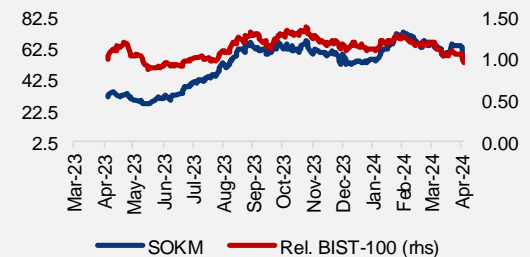
| Ticker: | SOKM TI |
|-----------------------------------|----------------|
| Share price (as of 18 April 2024) | 56.80 |
| Share price (52 week range) | 26.5 / 73.2 |
| Market cap. (TL mn - USD mn) | 33,699 - 1,038 |
| # of shares outstanding (mn) | 593.3 |
| Free Float | 51% |

| Avg. trading volume | 1M | 3M | 12M |
|---------------------|------|------|------|
| USD mn | 17.4 | 18.6 | 19.4 |

| Price performance | 1M | 3M | Y-t-D |
|-------------------|------|------|-------|
| TL | -12% | 2% | 5% |
| USD | -12% | -6% | -5% |
| Rel. to BIST-100 | -19% | -14% | -17% |

| TL mn | 2021 | 2022 | 2023 |
|--------------|--------|---------|---------|
| Revenues | 28,412 | 112,385 | 132,976 |
| EBITDA | 2,622 | 5,035 | 3,860 |
| Net Earnings | 324 | 6,954 | 4,446 |
| Net Debt | 1,666 | 5,630 | 2,098 |

| Valuation | 2021 | 2022 | 2023 |
|----------------|--------|-------|-------|
| P/E | 103.9x | 16.9x | 4.6x |
| P/BV | 34.8x | 12.1x | 6.4x |
| EV/EBITDA | 4.1x | 3.9x | 5.2x |
| EV/Sales | 0.39x | 0.35x | 0.26x |
| Dividend Yield | 1.0% | 0.0% | 1.2% |



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About Company

Sok Marketler Ticaret A.S., founded in 1995 and headquartered in Istanbul, Turkey, is a key player in the retail sector, specializing in fast-moving consumer goods. The company offers a wide range of products, including dairy items like milk, cheese, yogurt, ice cream, and various milk-based desserts. Their inventory also features a selection of fruit juices, an array of spices such as sumac, cumin, and cinnamon, and essential dry foods like beans, rice, lentils, and corn. Additionally, Sok Marketler provides pasta, soups, flours, oils like corn and sunflower, and various condiments including margarine and olive oil.

The company's non-food products include laundry detergents, cleaning supplies, personal hygiene items like soaps and colognes, and even kitchenware and clothing. Sok Marketler also offers snacks such as chips, biscuits, and chocolate wafers, along with beverages like tea, soda, and coffee.

These products are marketed under several brands, including Mis, Anadolu Mutfagi, Piyale, Evin, Mintax, Deren, and many others. Sok Marketler continues to be a significant presence in Turkey's retail market, providing a comprehensive range of products to meet everyday needs.

Financial Analysis

Q4 2023 financial results... In consideration of IAS 29, net sales growth for the year 2023 showed an increase of 18.3% compared to the previous year, reaching 133 bn TL. EBITDA was recorded at 3.9 bn TL, with an EBITDA margin of 2.9%. Net profit was 4.4 bn TL, yielding a margin of 3.3%. The company's investments amounted to 2.4 bn TL, equivalent to 1.8% of sales. Looking at the breakdown of investments, a significant majority (77.9%) of the investments made in 2022 were allocated to new store openings. The investment rate for ŞOK Mini stores was 6.1%, store maintenance and repair accounted for 4.8%, head office for 1.9%, and warehouse for 9.3%. In 2023, 60.6% of the investments were used for new store openings. During this period, store maintenance and repair investments rose to 17.9%, investments for the head office were 1.1%, and investments for warehouses reached 20.4%.

Excluding the effect of IAS 29, net sales reported a 79.7% increase, amounting to 106.6 bn TL. EBITDA reached 7.4 bn TL, capturing a margin of 7%, while the net profit margin was reported as 3.0%.

The company's daily average sales per store increased by 70.5% compared to the previous year, reaching 28,632 TL. The number of customers grew by 1.7%, totaling 344. The daily average basket size increased by 67.6%, recorded at 83.1 TL.

In terms of gross profit growth, including the impact of IAS 29, there was a 15% increase reaching a level of 26.169 mn TL, while excluding this effect, gross profit rose by 79.9% to 25.364 mn TL. Operating expenses saw a 25.9% increase including IAS 29, but when excluding this effect, there was a substantial increase of 92.6%, reported at 17.958 mn TL. In EBITDA growth, margins dropped from 4.5% to 2.9% including IAS 29, and from 8.0% to 7.0% when excluding the effect. When examining net working capital and free cash flow, the number of days in net working capital decreased from -11 to -3, and free cash flow showed a significant increase from 5.344 mn TL to 10.743 mn TL. This situation indicates an improvement in ŞOK Markets Chain's operational efficiency and cash generation capability. Regarding net debt, the net debt position went from -1.416 mn TL at the end of 2022 to -4.204 mn TL at the end of 2023.

Tables

| Balance Sheet | 2019 | 2020 | 2021 | 2022 | 2023 | Income statement | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------|--------------|--------------|--------------|---------------|---------------|-------------------------------|---------------|---------------|---------------|----------------|----------------|
| Cash | 431 | 1,149 | 1,344 | 1,416 | 4,204 | Revenues | 16,052 | 21,354 | 28,412 | 112,385 | 132,976 |
| Accounts receivables | 74 | 106 | 100 | 200 | 158 | Gross profit | 3,740 | 5,036 | 6,644 | 22,752 | 26,169 |
| Inventory | 1,330 | 2,090 | 2,849 | 15,715 | 18,361 | Operating expenses | 2,869 | 3,634 | 4,856 | 21,697 | 26,905 |
| Other current assets | 25 | 32 | 77 | 2,721 | 2,682 | Operating profit | 872 | 1,402 | 1,788 | 1,055 | -737 |
| Current assets | 1,860 | 3,377 | 4,370 | 20,052 | 25,405 | EBITDA | 1,470 | 2,099 | 2,622 | 5,035 | 3,860 |
| Financial investments | 0 | 0 | 0 | 0 | 0 | Other income, net | -543 | -531 | -689 | -884 | -198 |
| Net fixed assets | 1,101 | 1,353 | 1,829 | 9,353 | 9,573 | Financial income, net | -573 | -577 | -799 | 7,076 | 6,832 |
| Intangible assets | 106 | 113 | 125 | 845 | 939 | Earnings before taxes | -244 | 294 | 301 | 7,247 | 5,898 |
| Other non-current assets | 2,640 | 2,919 | 3,412 | 16,538 | 17,148 | Tax expense | 54 | 22 | -18 | 293 | 1,452 |
| Non-current assets | 3,847 | 4,385 | 5,365 | 26,736 | 27,659 | Net earnings - Parent | -299 | 273 | 324 | 6,954 | 4,446 |
| Total assets | 5,708 | 7,762 | 9,735 | 46,788 | 53,064 | Cashflow statement | | | | | |
| Short-term financial loans | 677 | 778 | 959 | 2,413 | 2,202 | EBITDA | 1,470 | 2,099 | 2,622 | 5,035 | 3,860 |
| Accounts payables | 3,395 | 4,601 | 5,321 | 18,504 | 19,513 | Taxes on EBIT | -195 | 105 | -107 | 43 | -181 |
| Other short-term payables | 219 | 367 | 785 | 1,793 | 2,572 | Capital expenditures | 351 | 517 | 794 | 3,237 | 2,095 |
| Current liabilities | 4,290 | 5,746 | 7,066 | 22,711 | 24,287 | Chg. in NWC | -478 | -556 | -340 | 1,419 | 777 |
| Long-term financial loans | 1,399 | 1,660 | 2,051 | 4,632 | 4,100 | Free cashflows to firm | 1,791 | 2,033 | 2,276 | 337 | 1,169 |
| Other long-term payables | 46 | 102 | 122 | 1,594 | 3,077 | Growth & margins | | | | | |
| Non-current liabilities | 1,444 | 1,762 | 2,173 | 6,226 | 7,178 | Revenues | 33% | 33% | 33% | 296% | 18% |
| Shareholders' equity | -27 | 254 | 496 | 17,851 | 21,599 | EBITDA | 133% | 43% | 25% | 92% | -23% |
| Parent company | -28 | 253 | 501 | 17,851 | 21,599 | Net earnings | -545% | -191% | 19% | 2044% | -36% |
| Minorities | 1 | 1 | -5 | 0 | 0 | Gross margin | 23.3% | 23.6% | 23.4% | 20.2% | 19.7% |
| Total liabilities & equity | 5,708 | 7,762 | 9,735 | 46,788 | 53,064 | Operating margin | 5.4% | 6.6% | 6.3% | 0.9% | -0.6% |
| Net debt | 1,644 | 1,289 | 1,666 | 5,630 | 2,098 | EBITDA margin | 9.2% | 9.8% | 9.2% | 4.5% | 2.9% |
| Net working capital | -2,185 | -2,740 | -3,081 | -1,662 | -884 | Net margin | -1.9% | 1.3% | 1.1% | 6.2% | 3.3% |
| Net working capital (Operatin | -1,991 | -2,404 | -2,372 | -2,590 | -994 | Free cashflow margin | -1.9% | 1.3% | 1.1% | 6.2% | 3.3% |
| Invested Capital | -978 | -1,275 | -1,127 | 8,536 | 9,627 | Per share (TL) | | | | | |
| Ratios | | | | | | EPS | -0.50 | 0.46 | 0.55 | 11.72 | 7.49 |
| Profitability | | | | | | BVPS | -0.05 | 0.43 | 0.84 | 30.09 | 36.41 |
| ROE | -252.9% | 240.2% | 86.5% | 75.8% | 22.5% | DPS | 0.00 | 0.00 | 0.13 | 0.00 | 0.51 |
| Net margin | -1.9% | 1.3% | 1.1% | 6.2% | 3.3% | Valuation | | | | | |
| Asset turnover | 3.6x | 3.2x | 3.2x | 4.0x | 2.7x | P/E | 88.7x | 123.6x | 103.9x | 16.9x | 4.6x |
| Leverage | 38.0x | 59.3x | 23.3x | 3.1x | 2.5x | P/BV | 34.17x | 69.88x | 34.84x | 12.06x | 6.39x |
| ROA | -6.7% | 4.0% | 3.7% | 24.6% | 8.9% | EV/EBITDA | 8.6x | 5.3x | 4.1x | 3.9x | 5.2x |
| ROIC | -87.1% | -99.6% | -119.1% | 22.8% | -6.5% | EV/Sales | 0.54x | 0.49x | 0.39x | 0.35x | 0.26x |
| Leverage | | | | | | Dividend Yield | 0.0% | 0.0% | 1.0% | 0.0% | 1.2% |
| Financial debt/Total assets | 36% | 31% | 31% | 15% | 12% | Free cashflow yield | 29.6% | 29.0% | 29.8% | 3.3% | 4.6% |
| Net debt/Equity | -61.19 | 5.08 | 3.36 | 0.32 | 0.10 | | | | | | |
| Net debt/EBITDA | 1.12 | 0.61 | 0.64 | 1.12 | 0.54 | | | | | | |

Source: Bloomberg, Tacirler Investment

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

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