Arçelik

We included Arçelik in our research coverage with a 12-month target price of TRY 206.60 and a BUY recommendation with a 44% upside potential. The main catalysts highlighted in our valuation are: i) the gradual increase in the European share of total revenues following the Whirlpool acquisition, ii) signs of recovery in demand in the European market, iii) the increasing footprint of Beko in the African region with the newly established factory in Egypt.

A gradual increase in the European share of total revenues through the Whirlpool acquisition… Arçelik and Whirlpool consolidated their European operations under the Beko Europe umbrella, allocating capital distribution as 75% to Beko BV and 25% to Whirlpool EMEA. As part of the agreement, 14 production facilities owned by Whirlpool in Europe (1 in the UK, 6 in Italy, 6 in Poland, and 1 in Slovakia) and approximately 13,000 employees were integrated into Beko Europe. Before the agreement, Arçelik operated with two production facilities in Europe (located in Romania) and around 6,000 employees. With this merger, the company expanded its European operations in 2024. Additionally, the merger is projected to generate over EUR 200 million in annual cost savings and synergy effects, with 30% expected to materialize in the short term and the remainder over 4-5 years. These savings are anticipated to have a positive impact on key cost items such as supply chain and logistics. The company foresees the Whirlpool acquisition, contributing EUR 3 billion to its consolidated revenues in 2024, raising total revenues to EUR 11 billion. By the end of 2024, Europe's share of total sales is expected to reach 50%. However, due to increased costs and personnel expenses, Whirlpool's declining operational profitability in the UK market during recent quarters is expected to cause a short-term contraction in Arçelik's margins following the consolidation. The consolidated EBITDA margin for 2024 is projected to decline to 5.8%, in line with our expectations (2023 EBITDA: 8%). Nevertheless, in the medium to long term, we anticipate that restructuring efforts will establish cost control, thereby leading Whirlpool operations to contribute positively to consolidated revenue and margins. Over the next five years, the EBITDA margin is expected to average 8.5%, reaching 10% by 2030.

Improvement in demand in the European market accompanied by an acceleration in the replacement cycle for white goods and smart appliances… The recent signals of interest rate cuts by both the Federal Reserve and the European Central Bank serve as a significant catalyst for the white goods sector, which has been under pressure globally for over two years. These rate cuts are expected to positively impact demand, especially in markets where installment-based credit is commonly used for white goods purchases. Globally, the shortening of replacement cycles for both white goods and smart appliances keeps market demand robust. Particularly, during the pandemic, the increased time spent at home led to a rise in demand for home appliances. This trend has continued into 2024, although consumers are now leaning towards fewer but more functional and durable devices. This shift not only increases the replacement frequency but also drives consumers to prefer well-established global brands with a track record of reliability and fewer issues. With its strong brand recognition, BEKO is expected to differentiate itself from international competitors and expand its market share through a diverse product range.

ARCLK	**Buy**
Target Price	**TL 206,60**
Return potential	**44%**

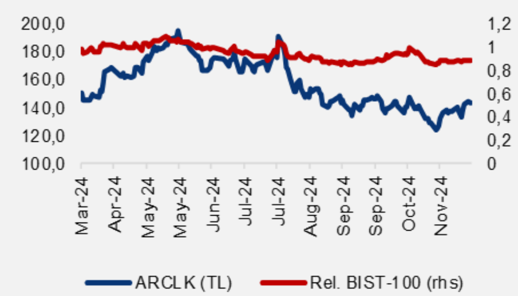
Share Data	
Ticker:	**ARCLK TI**
Share price (as of 26.11.2024)	143,50
Share price (52 week range)	122,50 / 195,00
Market cap. (TL mn - USD mn)	96.967 - 2.805
# of shares (mn) & free float	676 - 15%
Foreign Ownership Rate	14,94%
Market	Star
Industry	White Goods

Avg. trading volume	**1M**	**3M**	**12M**
USD mn	8,7	8,3	15,2

Price performance	**1M**	**3M**	**Y-t-D**
TL	3%	3%	12%
USD	2%	1%	-5%
Rel. to BIST-100	-5%	2%	-13%

Forecasts (TL mn)	**2023**	**2024E**	**2025E**
Revenues	257.104	410.376	529.386
EBITDA	20.331	23.758	42.446
Net Earnings	8.395	-9.720	2.782

Valuation	**2023**	**2024E**	**2025E**
P/E	11,6x	n.m	42,3x
P/BV	1,3x	1,3x	1,3x
EV/EBITDA	10,3x	8,8x	4,9x
EV/Sales	0,7x	0,5x	0,4x
Dividend Yield	0%	0%	0%



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The newly established factory in Egypt will enhance Beko's footprint in the African region. Arçelik recently opened a new white goods factory in Egypt with an investment of USD 110 million, featuring an annual production capacity of 1.5 million household appliances and expected to provide direct employment for 2,000 people. Additionally, the factory will primarily produce for the European, Middle Eastern, and African markets, offering an annual export potential of approximately USD 250 million. This investment aims to strengthen Egypt's position as a significant production hub for the African and Middle Eastern regions. Through this factory, Arçelik intends to expand its presence in the African market, delivering more environmentally friendly and affordable products to the region. In the Asia region, refrigerators are among Arçelik's best-selling products, accounting for half of its sales volume. Meanwhile, the large home appliances market in Africa and the Middle East was valued at approximately USD 22 billion in 2023, with an expected growth rate of 5.5% by 2032. Beko's growth strategy in these markets is anticipated to be driven by innovative products that meet the demand for energy efficiency and sustainability.

Risks: i) A potential longer-than-expected recovery in margins impacted by the acquired Whirlpool operations, ii) The ongoing credit tightening and prolonged high-interest-rate environment that could continue to suppress demand, iii) The delayed realization of the global demand stimulus expected from interest rate cuts, representing key risk factors in our valuation.

Investment Thesis

In addition to the initiation of interest rate cuts in global markets, the growing expectations of a rate-cut cycle in the domestic market are anticipated to act as a significant catalyst for the white goods sector, which has recently been facing challenges. Furthermore, the expected improvements in risk premiums in the Turkish equity market in 2025 are considered another critical catalyst for the recovery and growth of the sector.

Arçelik provides financial support to Turkish consumers by offering installment payment options through its dealers, which necessitates a debt-focused financial structure. This structure increases demand for Turkish lira resources in the short term, while recent years have seen challenges in accessing TL loans. By 2025, with the acceleration of interest rate cuts, access to credit is expected to improve, which is anticipated to reduce the company's working capital management costs.

As of 2024, Arçelik and Whirlpool completed the acquisition of operations encompassing Whirlpool's European, Middle Eastern, and African (EMEA) operations. According to Whirlpool EMEA's 2023 financial results, net sales revenues contracted by 10% year-on-year, and unit sales volumes declined by 6% due to the shrinkage in the European white goods market. This restructuring represents an annual revenue potential of approximately EUR 5.5 billion and positions Arçelik with strong white goods production capacity in Europe. For Arçelik, the integration aims to expand market share, enhance sustainable production practices, and introduce innovations in consumer services. Additionally, the company targets direct access to Whirlpool's extensive product portfolio in the premium segment and built-in home appliances market while leveraging Beko Europe as a strategic platform.

Whirlpool EMEA's EBITDA margin (including small home appliances) remained stable at 2% in 2023, showing no improvement compared to the previous year. At first glance, Whirlpool EMEA's EBITDA margin appears significantly lower than Arçelik's historically achieved pre-inflation accounting margin of 10.5%. The main reasons for this decline include high personnel costs in Europe and prolonged increases in raw material prices, which have substantially raised per-unit costs.

In the short term, Whirlpool EMEA’s low operational profitability is expected to cause a contraction in consolidated figures following the merger. However, we anticipate that improvements in cost optimization and product innovation will help restore margins to previous levels by 2025 and beyond. Additionally, the company plans to restructure its European operations to enhance operating margins and achieve annual savings of EUR 300 million within five years.

According to our projections, the company’s EBITDA is expected to grow from EUR 582 million in 2024 to EUR 1.1 billion in 2027, achieving a compound annual growth rate (CAGR) of 18.2% during this period.

Global Outlook for White Goods Demand in 2024:

As of 2023, global demand for white goods has shown strong growth, with the market reaching a value of approximately USD 763 billion. The compound annual growth rate (CAGR) is projected to range between 7.8% and 8.2% through 2032. This growth is driven by factors such as accelerated urbanization, rising income levels, and demand for energy-efficient smart home appliances. Products such as refrigerators, air conditioners, and washing machines continue to experience strong demand.

From a regional perspective, the Asia-Pacific region, led by countries like China and India, dominates the market, fueled by rapid urbanization and economic growth. Revenues from these markets currently account for approximately 19% of Arçelik’s total revenues, with projections indicating a potential increase to 25% in the future. Similarly, the North American market is growing rapidly, driven by demand for energy-efficient devices. However, rising raw material costs and supply chain disruptions remain key factors slowing market growth. Despite these challenges, the demand for eco-friendly and energy-efficient products continues to support market expansion, complemented by innovative solutions. Beko, with its strong brand recognition, innovative solutions, and product segments tailored to consumer demand, remains a prominent player in these markets.

Refrigerators constitute the largest segment in the white goods market, with an annual growth rate of 7.3%, representing the widest market share. Other significant segments include air conditioners and washing machines. The Asia-Pacific region leads the demand for these products, with an expected growth rate of 9.5% through 2032, maintaining the largest market share.

Between 2024 and 2032, the projected annual growth rates for key product categories are as follows: air conditioners (7.1%), microwave ovens (6.8%), dishwashers (6.5%), and washing machines (4.7%). The significant growth in the air conditioner segment is primarily attributed to global warming, rising temperatures, and increased demand for comfort. Meanwhile, the growth in microwave ovens is driven by urbanization and the need for faster cooking technologies, which cater to time-saving requirements, thereby boosting demand in this category.

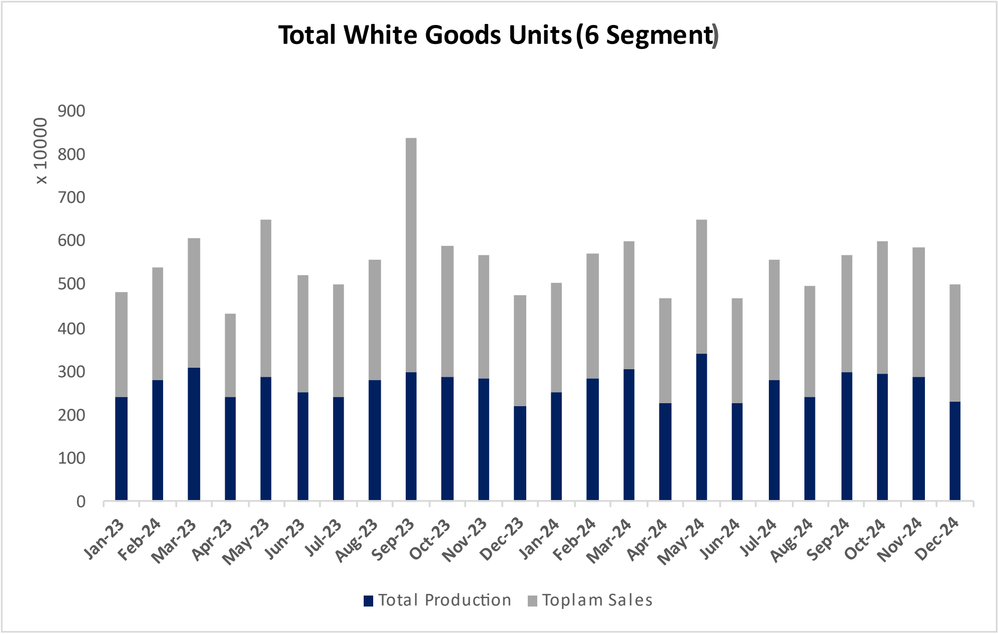
Overview of Türkiye's White Goods Sector:

As of 2024, Türkiye maintains a strong position in white goods manufacturing. Türkiye ranks as the second-largest white goods producer globally and is the leading producer in Europe. Approximately 75% of Türkiye’s white goods production is exported, reflecting robust export performance.

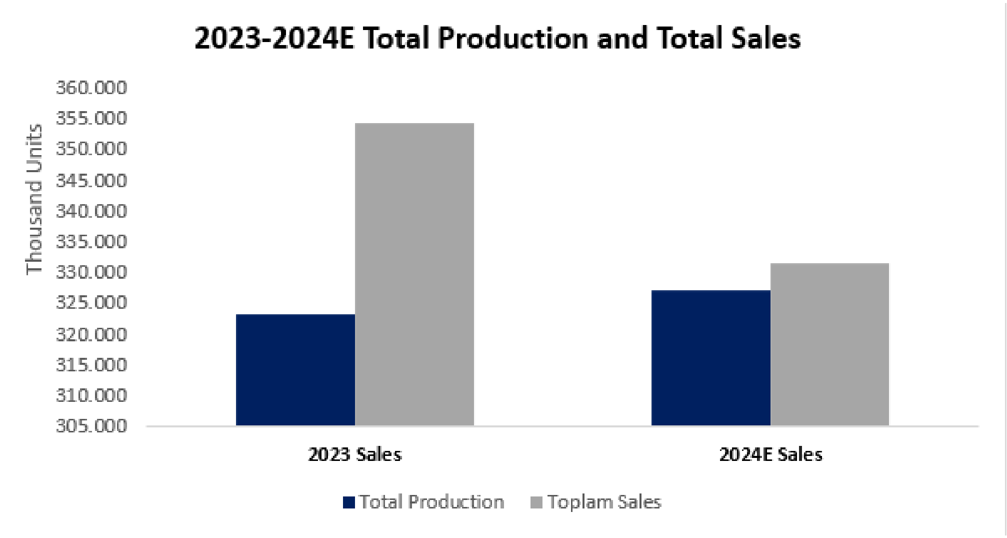
In 2023, the white goods sector exported approximately 35 million units, with the majority of exports directed to Europe. Key markets include Germany, the United Kingdom, and France. Production capacity in 2024 is expected to show growth similar to 2023 levels, contributing to a global market growing at a rate of 7.8%-8.2%. The sector directly employs around 60,000 people, a figure that increases further when including ancillary industries. For 2024 and beyond, the growth rate of Türkiye's white goods market is expected to remain around 5%-6%, indicating a performance close to global growth rates. Smart home technologies and energy-efficient products are key factors supporting future market growth.

Between 2017 and 2023, Türkiye's white goods sector grew at an average rate of 5%-7%, while the European white goods market exhibited more modest growth of 3%-4% during the same period. Türkiye’s growth is largely export-driven, with strong exports to the European market underpinning this performance.

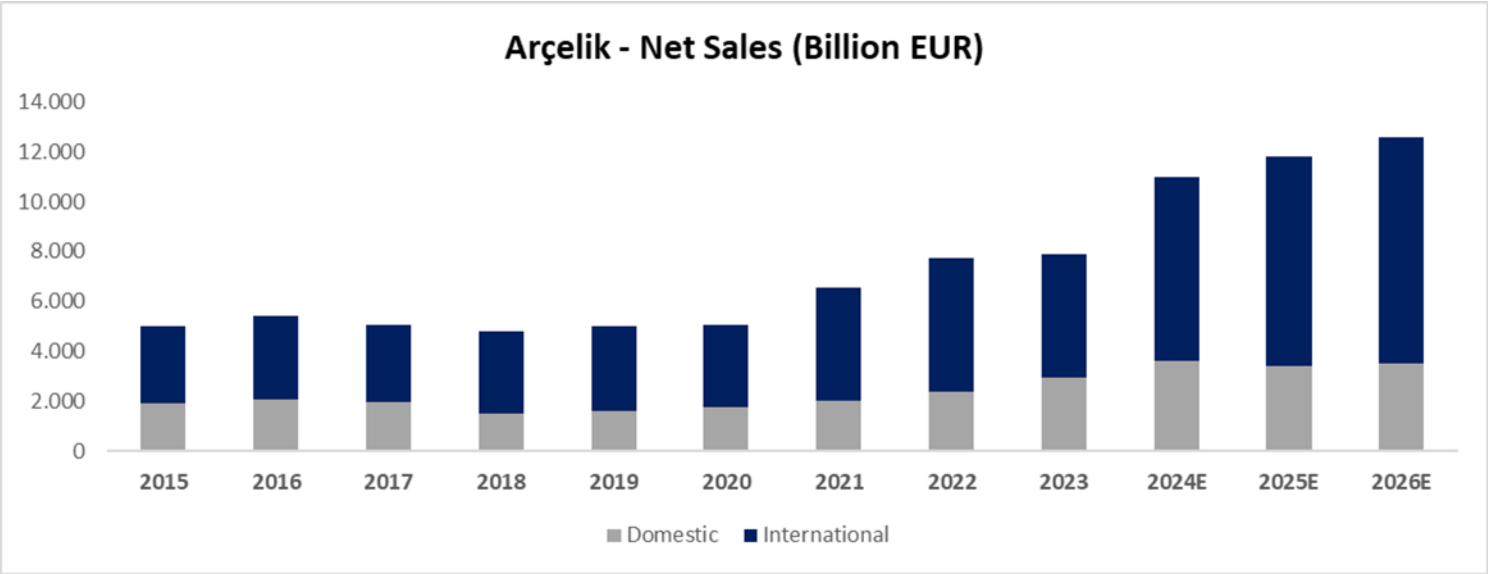
In the first half of 2025, the pressure on demand caused by the high-interest-rate environment is expected to reverse globally as the Federal Reserve transitions to a rate-cut policy. This shift, combined with anticipated interest rate reductions on consumer loans, is expected to positively impact on consumer purchasing power. Accordingly, 2025 is projected to be a year of recovery in demand compared to the previous year. The anticipated increase in the company’s international revenue share will also contribute to improvements in demand starting from the first quarter of 2025.



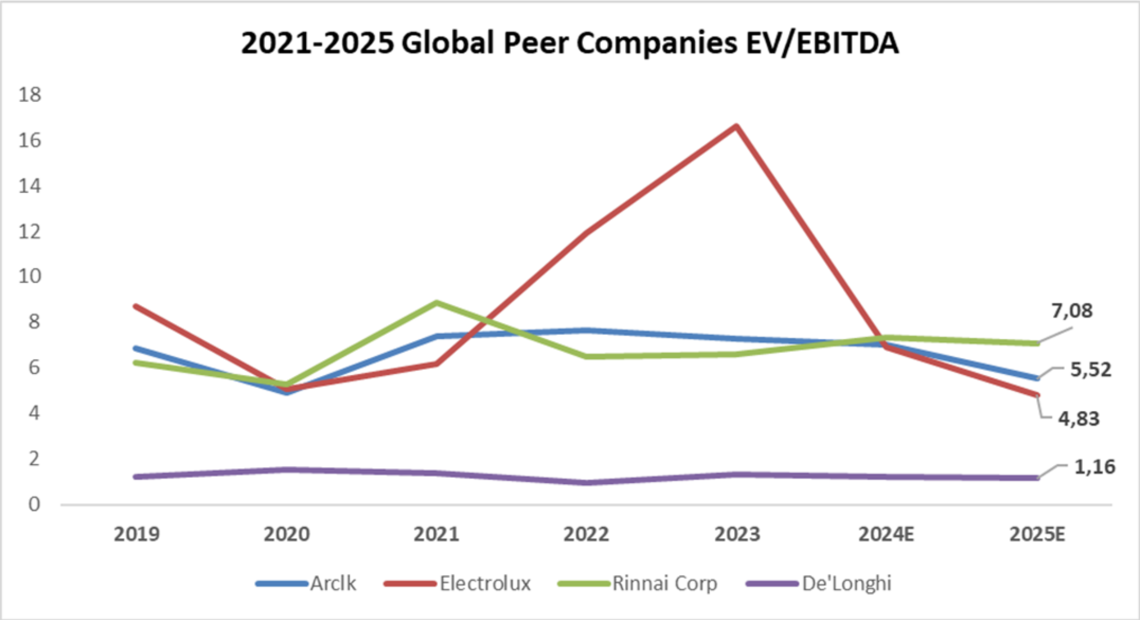
Source: *TURKBESD, Tacirler Investment Research*



Source: *TURKBESD, Tacirler Investment Research*

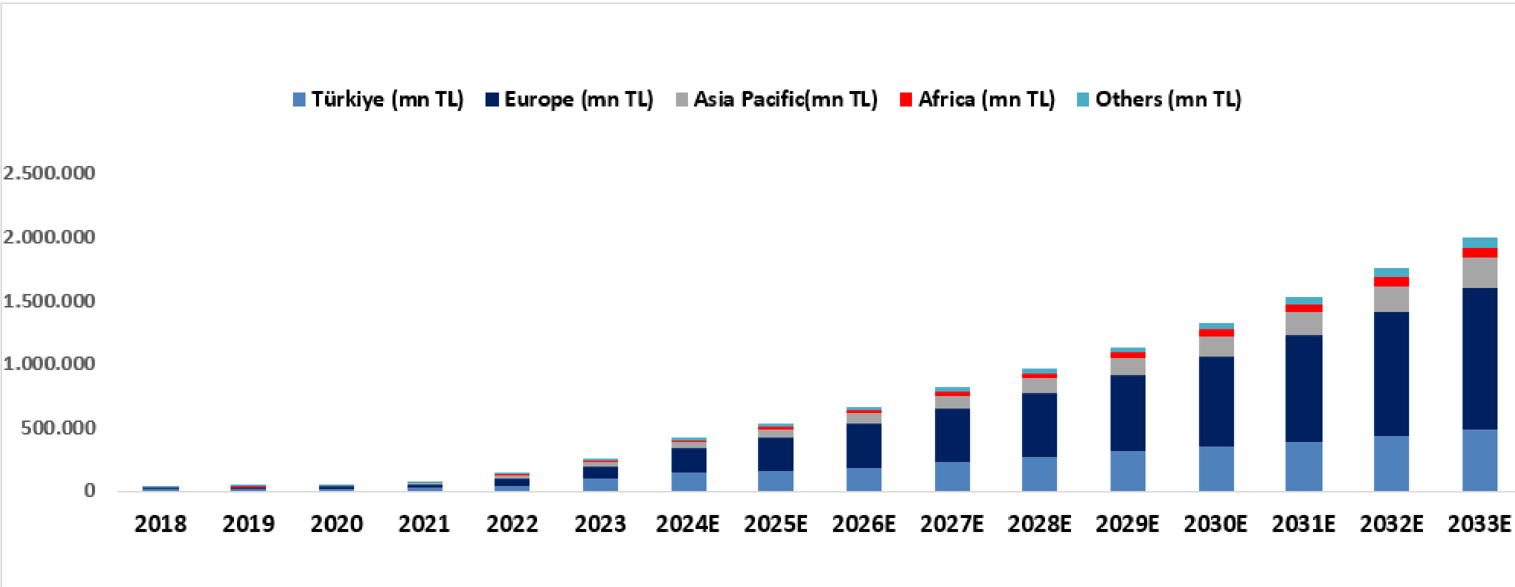


Source: *Arçelik, Tacirler Investment Research*



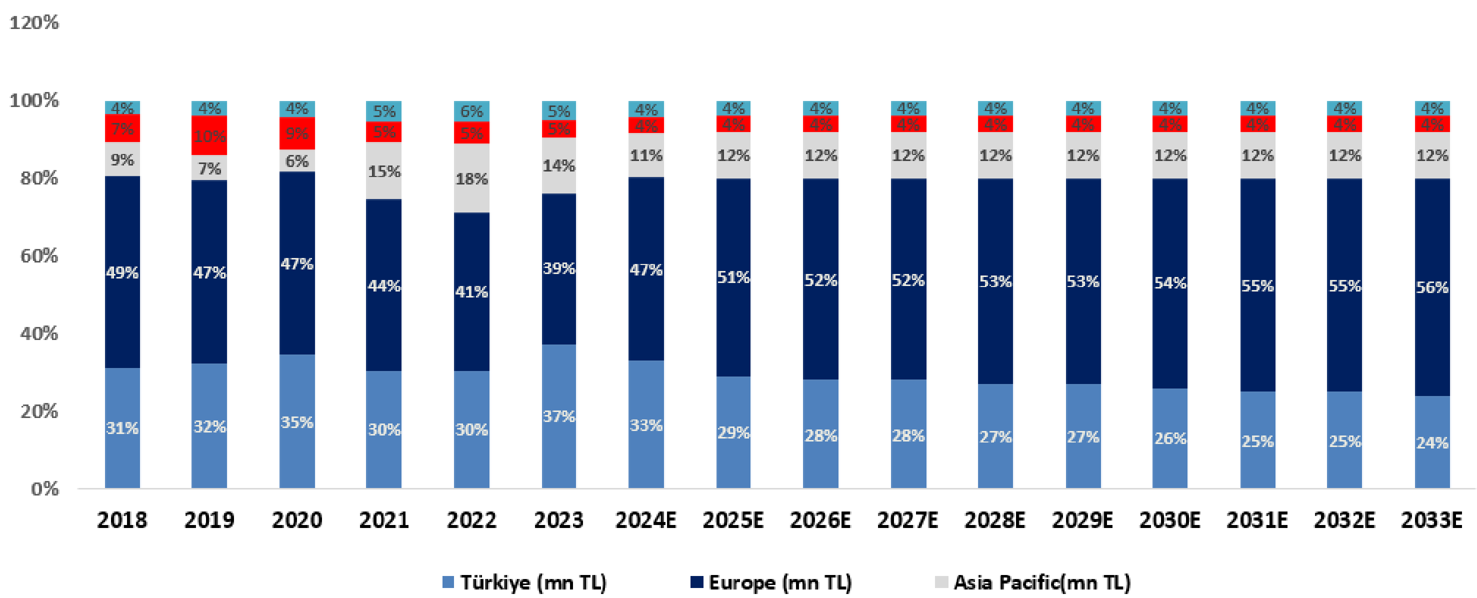
Source: *Bloomberg, Tacirler Investment Research*

Arçelik Revenues by Region (mn TL) (2018-2033E)



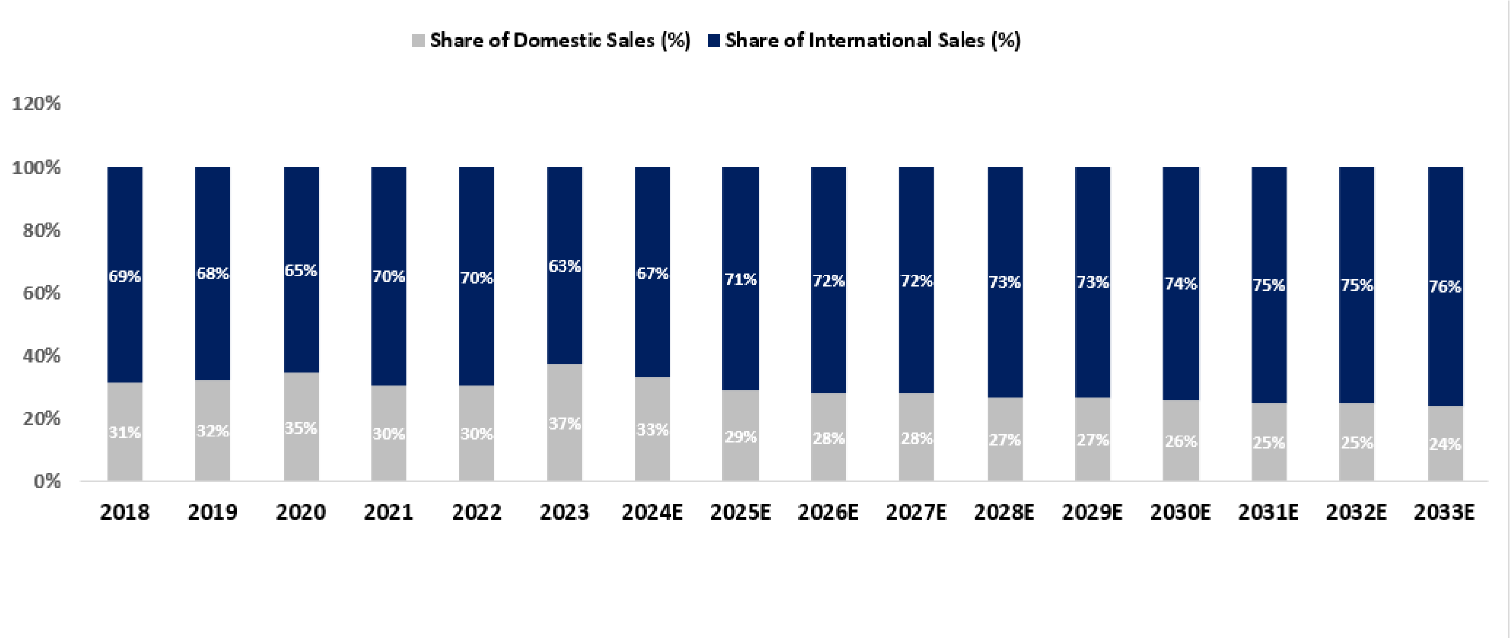
Source: *Company Data, Tacirler Investment Research*

Arçelik Revenue Breakdown by Regional Share (%) (2018-2033E)



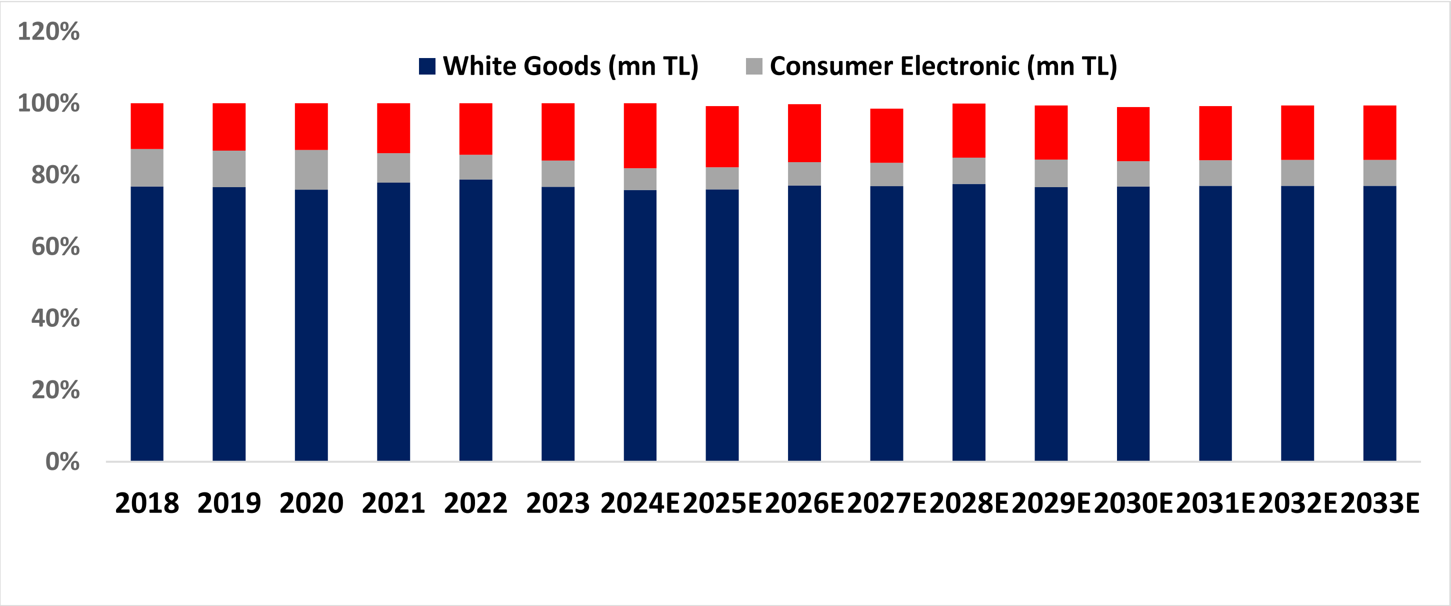
Source: *Company Data, Tacirler Investment Research*

Distributions of Sales (%) (2018-2033E)



Source: *Company Data, Tacirler Investment Research*

Arçelik Revenues by Segment (mn TL) (2018-2033E)



Source: *Company Data, Tacirler Investment Research*

Comparison of Peer Companies

We conducted a peer comparison analysis for Arçelik for reference purposes. While we anticipate the company concluding 2024 with a net loss, we have excluded the P/E ratio from our calculations. In 2025, however, we foresee a transition from a net loss to a net profit, indicating a modest improvement in profitability. Nevertheless, we expect the recovery in Arçelik's operational performance to take precedence. In our 2024 estimates, Arçelik is trading at a 4,94x EV/EBITDA multiple, while the 2025 estimate suggests a 3.64x EV/EBITDA multiple. Consequently, Arçelik trades at a discount of 58,2% in our 2024 forecasts and 63,7% in our 2025 calculations compared to its global peers.

Table: Peer Company Comparison

Peer Companies	Ticker	Mcap (bnUSD)	P/E 2024E	P/E 2025E	EV/EBITDA 2024E	EV/EBITDA 2025E
Europe						
Electrolux	ELUXB SS	2,145	-	9,6	6,8	4,6
De' Longhi	DLG IM	4,6	14,1	13,2	7,7	7,2
North America						
Whirlpool	WHR US	6,0	9,2	9,5	9,7	8,4
Lennox International	LII US	22,2	29,6	26,7	21,4	19,6
AO Smith	AOS US	10,4	18,9	17,6	12,5	11,9
Asia						
Haier	600690:CH	36,0	14,1	12,6	9,6	8,7
Bajaj Electricals	BJE IN	1,0	44,9	32,0	21,6	16,2
Blue Star LTD	BLSTR IN	4,4	60,9	48,2	41,0	33,0
Rinnai Corporation	5947:JP	3,0	15,4	14,0	6,0	5,6
Gree Electric Appliances	000651:CH	33,5	7,6	7,2	5,5	5,2
LG Electronics	066570:KS	2,1	10,1	6,8	3,7	3,5
Hisense	000921:CH	5,3	9,0	7,9	6,7	6,0
TCL	000100:CH	12,7	29,0	13,9	9,4	7,1
Zhejiang Supor	002032:CH	5,8	18,4	16,9	15,0	13,9
Samsung Electronics	005930:KS	236,3	10,7	9,2	3,3	2,8
Midea Group	000333:CH	0,5	13,7	12,5	10,7	9,8
IFB Industries LTD	IFBIND	63,8	41,8	26,0	19,5	13,9
Japan						
Rinnai	5947.T	3,0	15,4	14,0	6,0	5,6
Daikin Industries	6367.T	34,4	20,5	18,4	8,4	7,7
Median		**5,8**	**15,4**	**13,9**	**9,4**	**7,7**
Average			**21,3**	**16,7**	**11,8**	**10,0**
Türkiye						
Arçelik	ARCLK	**2,7**	**-**	**42,34**	**4,94**	**3,64**
Premium/Discount			**-**	**154%**	**-58,2%**	**-63,7%**

Source: *Bloomberg, Tacirler Investment Research*

Valuation – DCF Table

For Arçelik, based on our Discounted Cash Flow (DCF) model covering the 2024–2033 period, we calculate a 12-month target price of TRY 206.60 per share. The target price indicates a potential upside of 44%. In our valuation, we have assumed a risk-free interest rate of 23.5%. The weighted average cost of capital (WACC) calculated for the projection period stands at 19.8%.

TL mn	2023E	2024E	2025E	2026E	2027E
Revenues	**257.104**	**410.376**	**529.386**	**663.849**	**815.207**
Growth%	0,0%	59,6%	29,0%	25,4%	22,8%
EBITDA	**20.331**	**23.758**	**42.446**	**57.551**	**74.593**
Growth%	25,3%	16,9%	78,7%	35,6%	29,6%
EBITDA Margin	7,9%	5,8%	8,0%	8,7%	9,2%
Taxes paid on EBIT	-929	-1.711	-4.061	-7.647	-12.221
CAPEX	-13.145	-14.267	-16.940	-21.243	-25.271
Change in Net Working Capital	25.335	10.330	10.679	15.327	14.970
Free cash flow from operations	**-19.078**	**-2.550**	**10.765**	**13.334**	**22.132**
FCFF Margin	-7,4%	-0,6%	2,0%	2,0%	2,7%
WACC		19,9%	19,8%	19,8%	19,8%
DCF		**-2.127**	**7.503**	**7.764**	**10.730**

Terminal growth rate	5,0%
Terminal Value	638.671
PV of Terminal Value	**98.367**
PV of FCFF	119.721
Enterprise Value	**218.088**
Latest Net Debt (3Q24)	95.610
Minority Interest	16.974
Participations	2.350
Equity Value	**107.855**
Target MCap	139.592
Paid in Capital	676
Target Price	**206,60**
Current share price (TL)	143,50
Upside Potential	**44%**

Projections

Balance Sheet (TLmn)	2021	2022	2023	2024E	2025E
Cash	16.015	40.418	66.289	34.536	33.435
Accounts receivables	23.412	55.949	90.375	106.106	126.730
Inventory	16.829	50.870	64.464	87.722	92.989
Financial investments	0	0	0	0	0
Fixed assets	19.699	63.419	87.617	120.282	132.310
Other non-current assets	9.125	21.767	41.963	61.218	64.279
Total assets	**85.079**	**232.422**	**350.707**	**409.862**	**449.742**
Short-term financial loans	13.044	58.048	78.050	55.593	61.153
Accounts payables	19.669	50.958	73.643	102.301	117.513
Long-term financial loans	19.535	26.709	60.405	82.652	97.530
Other long-term payables	-62.352	-169.133	-261.098	-321.323	-358.397
Non-current liabilities	**-10.103**	**-33.417**	**-49.000**	**-80.776**	**-82.201**
Shareholders' equity	**19.383**	**52.789**	**72.237**	**72.249**	**74.539**
Paid in Capital	676	676	676	676	676
Other Equity	18.708	52.114	71.561	71.574	73.864
Total liabilities & equity	**85.079**	**232.422**	**350.707**	**409.862**	**449.742**
Net debt	16.565	44.340	72.166	103.710	125.247
Net working capital	20.571	55.861	81.196	91.526	102.205

Per share (TL)					
EPS	4,81	10,37	12,42	-14,38	4,12
BVPS	28,69	78,12	106,90	106,92	110,31
DPS	-16,24	-52,22	0,00	0,00	0,00

Ratios					
Profitability					
ROE	19,6%	19,4%	13,4%	-13,5%	3,8%
Net margin	4,8%	2,7%	3,3%	-2,4%	0,5%
Asset turnover	1,0x	1,6x	0,9x	1,1x	1,2x
Leverage	4,0x	4,4x	4,7x	5,3x	5,9x
ROA	4,9%	4,4%	2,9%	-2,6%	0,6%

Leverage					
Financial debt/Total assets	38%	36%	39%	34%	35%
Net debt/Equity	0,85	0,84	1,00	1,44	1,68
Net debt/EBITDA	2,42	2,73	3,55	4,37	2,95

Income statement	2021	2022	2023	2024E	2025E
Revenues	**68.184**	**257.172**	**257.104**	**410.376**	**529.386**
Gross profit	20.478	68.671	75.378	114.186	156.409
Operating expenses	-15.471	-60.513	-63.762	-107.342	-140.167
Operating profit	5.008	8.157	11.616	6.844	16.243
EBITDA	**6.853**	**16.220**	**20.331**	**23.758**	**42.446**
Other income, net	2.013	1.244	-1.458	-5.856	-4.817
Financial income, net	-3.660	-4.031	-2.466	-13.382	-12.423
Earnings before taxes	3.623	7.239	7.158	-11.675	-135
Tax expense	-372	-231	1.237	1.955	2.917
Net earnings	**3.251**	**7.008**	**8.395**	**-9.720**	**2.782**

Cashflow statement					
EBITDA	**6.853**	**16.220**	**20.331**	**23.758**	**42.446**
Taxes on EBIT	-1.067	-844	-929	-1.711	-4.061
Capital expenditures	-2.445	-9.849	-13.145	-14.267	-16.940
Chg. in NWC	10.971	35.290	25.335	10.330	10.679
Free cashflows to firm	**-7.630**	**-29.762**	**-19.078**	**-2.550**	**10.765**

Growth & margins					
Revenues	67%	277%	0%	60%	29%
EBITDA	35%	137%	25%	17%	79%
Net earnings	13%	116%	20%	-216%	-129%
Gross margin	30,0%	26,7%	29,3%	27,8%	29,5%
Operating margin	7,3%	3,2%	4,5%	1,7%	3,1%
EBITDA margin	10,1%	6,3%	7,9%	5,8%	8,0%
Net margin	4,8%	2,7%	3,3%	-2,4%	0,5%
Free cashflow margin	-11,2%	-11,6%	-7,4%	-0,6%	2,0%

Valuation					
P/E	29,8x	13,8x	11,6x	n.m	42,3x
P/BV	5,0x	1,8x	1,3x	1,3x	1,3x
EV/EBITDA	30,6x	12,9x	10,3x	8,8x	4,9x
EV/Sales	1,7x	0,5x	0,7x	0,5x	0,4x
Dividend Yield	-11,3%	-36,4%	0,0%	0,0%	0,0%
Free cashflow yield	-7,9%	-30,7%	-19,7%	-2,6%	11,1%

Source: Company Data, Tacirler Investment

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

Important Disclosures

Rating Methodology

Stock ratings are based on the 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

Buy: The stock is expected to generate a return of more than 30% 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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