

Sok Marketler

Safe harbor in high food inflation...

We are increasing our target price for SOKM <SOKM TI> from TL 35.00 per share to TL 106.00 considering the strong 2Q23 operational performance and high food inflation theme. Our 12M target price corresponds to %71 return potential and we remain our BUY recommendation. High food inflation and consumers' increasing demand for discount products support SOK's LFL growth by contributing to its operational performance. We expect SOKM will continue to grow with new store rollouts, and operational margins will improve thanks to effective control over costs and a strategy of focusing on store efficiencies. All in all, we expect SOKM to raise its net income by 67% y/y in 2023E and 37% y/y in 2024E. SOKM trades at 9.3x P/E in our 2023E forecasts and 6.8x in our 2024E forecasts.

Strong demand continues in the food retail sector... SOKM posted a net sales growth of 84.4% y/y and a same-store sales growth (LFL) of 73.5% with a total of TL24.6bn in 2Q23, by the increase in customer traffic, the company demonstrated an operational performance above expectations. In the monetary tightening environment, we believe that food retail companies will be among the key sectors we expect to stand out, including SOKM. We expect SOKM to maintain its strong position in the market during the high season, by its competitive pricing policy and wide product range.

Safe harbor in high food inflation... While high food inflation is reflected positively on the average basket amount, the continued strong demand of consumers for discounted products supports SOKM's growth-oriented business model. We believe that SOKM will continue to grow in the market with the effect of the strong summer season, and the average daily basket amount, which increased by 68.7% compared to the previous year, with TL76.2 in 2Q23.

We revise the forecasts upwards... Following the 2Q23 financial results, the company maintained its expectations for 2023E. Accordingly, SOKM expects an 80% growth in net sales with a standard deviation of 5%, and an EBITDA margin of 7.5% - 8%. We expect net sales in 2023E to reach TL112.7 billion with an annual increase of 90.0%, with an EBITDA of TL 8,429 million with a margin of 7.5%. Thus, we expect SOK to generate a net profit of 3,982 million TL in 2023E, with an annual increase of 67%. We anticipate an average of 7.2% EBITDA margin and 21.2% compound annual growth rate in revenues during our valuation period.

Risks... We consider that, i) a possible slowdown in demand, customer traffic and new store rollouts, along with decreased purchasing power, ii) sharp contraction in food prices would be the key risks for SOKM.

Rating

Buy

Target Price

106.00

Return potential

71%

Share Data

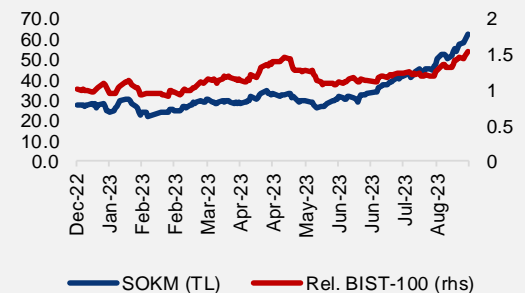
Ticker:	SOKM TI		
Share price (as of 31.08.2023)	62.15		
Share price (52 week range)	21.9 / 62.2		
Market cap. (TL mn - USD mn)	36,873 - 1,383		
# of shares (mn) & free float	593.3 - 51%		
Foreign Ownership Rate	33.2%		
Market	Star		
Industry	Wholesale and Retail Trade		

Avg. trading volume	1M	3M	12M
USD mn	19.4	13.3	12.0

Price performance	1M	3M	Y-t-D
TL	38%	131%	124%
USD	39%	79%	57%
Rel. to BIST-100	26%	42%	56%

Forecasts (TL mn)	2021	2022	2023E
Revenues	28,412	59,292	112,682
EBITDA	2,622	4,772	8,429
Net Earnings	324	2,380	3,982

Valuation	2021	2022	2023E
P/E	113.7x	15.5x	9.3x
P/BV	40.6x	27.0x	22.5x
EV/EBITDA	15.1x	8.3x	4.7x
EV/Sales	1.4x	0.7x	0.3x
Dividend Yield	0.0%	0.8%	0.9%



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Exhibit: SOK's DCF Valuation

(mn TL)	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	59,292	112,682	162,071	209,565	248,612	284,969	323,557	368,840	420,259
Growth%	108.7%	90.0%	43.8%	29.3%	18.6%	14.6%	13.5%	14.0%	13.9%
EBITDA	4,772	8,429	11,601	15,190	18,175	21,082	23,834	27,791	31,528
Growth%	82.0%	76.6%	37.6%	30.9%	19.6%	16.0%	13.1%	16.6%	13.4%
<i>EBITDA Margin</i>	8.0%	7.5%	7.2%	7.2%	7.3%	7.4%	7.4%	7.5%	7.5%
Taxes paid on EBIT	811	530	708	912	1,062	1,220	1,362	1,587	1,793
CAPEX	-1,672	-2,399	-3,665	-4,618	-5,657	-6,042	-7,432	-8,940	-9,834
Change in Net Working Capital	-1,067	-1,719	55	821	1,761	2,458	1,772	2,243	2,808
Free cash flow from operations	4,979	8,278	8,590	10,662	11,818	13,802	15,992	18,195	20,678
FCFF Margin	8.4%	7.3%	5.3%	5.1%	4.8%	4.8%	4.9%	4.9%	4.9%
WACC	24.3%	27.3%	30.9%	27.8%	28.8%	28.3%	28.4%	28.4%	28.9%
DFC	1,064	492	4,979	8,278	6,668	6,450	5,569	5,067	4,556
Terminal growth rate	5%								
Terminal Value	94,878								
PV of Terminal Value	16,529								
PV of FCFF	49,223								
PV of Terminal Value	16,529								
Enterprise Value	65,752								
Less:									
Latest Net Debt	2,603								
Equity Value	63,149								
# of shares outstanding	593								
Fair Value per share (12-mth fwd)	106.00								
Current share price	62.15								
Upside / (Downside)	71%								

Source: Company Data, Tacirler Investment

Projected Financials

Balance Sheet	2019	2020	2021	2022	2023E
Cash	431	1,149	1,344	859	3,692
Accounts receivables	74	106	100	136	224
Inventory	1,330	2,090	2,849	8,829	12,111
Financial investments	0	0	0	0	0
Fixed assets	1,207	1,466	1,953	3,189	4,416
Other non-current assets	2,665	2,951	3,488	5,764	7,762
Total assets	5,708	7,762	9,735	18,777	28,206
Short-term financial loans	677	778	959	1,464	1,678
Accounts payables	3,395	4,601	5,321	10,269	15,359
Long-term financial loans	1,399	1,660	2,051	2,811	2,982
Other long-term payables	264	264	264	264	264
Total liabilities	-263	-469	-912	-1,367	-1,640
Shareholders' equity	-28	469	907	1,367	1,640
Paid in Capital	-28	253	501	2,865	6,548
Other Equity	0	216	407	-1,499	-4,908
Total liabilities & equity	5,708	7,762	9,735	18,777	28,206
Net debt	1,644	1,289	1,666	3,417	967
Net working capital	-1,991	-2,404	-2,372	-1,305	-3,023

Per share (TL)

EPS	-0.50	0.46	0.55	4.01	6.71
BVPS	-0.05	0.79	1.53	2.30	2.76
DPS	0.00	0.13	0.00	0.51	0.54

Ratios

Profitability

ROE	-295.9%	123.6%	47.1%	209.3%	264.9%
Net margin	-1.9%	1.3%	1.1%	4.0%	3.5%
Asset turnover	5.6x	3.2x	3.2x	4.2x	4.8x
Leverage	28.3x	30.5x	12.7x	12.5x	15.6x
ROA	-10.5%	4.0%	3.7%	16.7%	17.0%

Leverage

Financial debt/Total assets	36%	31%	31%	23%	17%
Net debt/Equity	-58.00	2.75	1.84	2.50	0.59
Net debt/EBITDA	1.12	0.61	0.64	0.72	0.11

Income statement	2019	2020	2021	2022	2023E
Revenues	16,052	21,354	28,412	59,292	112,682
Gross profit	3,740	5,036	6,644	14,097	26,437
Operating expenses	-2,869	-3,634	-4,856	-10,472	-19,813
Operating profit	872	1,402	1,788	3,625	6,623
EBITDA	1,470	2,099	2,622	4,772	8,429
Other income, net	-549	-553	-820	-530	-549
Financial income, net	-573	-577	-799	-1,209	-1,825
Earnings before taxes	-244	294	301	1,945	4,322
Tax expense	-54	-22	18	435	-340
Net earnings	-299	273	324	2,380	3,982

Cashflow statement

EBITDA	1,470	2,099	2,622	4,772	8,429
Taxes on EBIT	195	-105	107	811	530
Capital expenditures	-351	-517	-794	-1,672	-2,399
Chg. in NWC	-1,954	-413	32	1,067	-1,719
Free cashflows to firm	-640	1,891	1,903	2,844	8,278

Growth & margins

Revenues	33%	33%	33%	109%	90%
EBITDA	133%	43%	25%	82%	77%
Net earnings	-548%	-191%	19%	634%	67%
Gross margin	23.3%	23.6%	23.4%	23.8%	23.5%
Operating margin	5.4%	6.6%	6.3%	6.1%	5.9%
EBITDA margin	9.2%	9.8%	9.2%	8.0%	7.5%
Net margin	-1.9%	1.3%	1.1%	4.0%	3.5%
Free cashflow margin	-4.0%	8.9%	6.7%	4.8%	7.3%

Valuation

P/E	-123.5x	135.3x	113.7x	15.5x	9.3x
P/BV	-1300.9x	78.6x	40.6x	27.0x	22.5x
EV/EBITDA	26.8x	18.8x	15.1x	8.3x	4.7x
EV/Sales	2.4x	1.8x	1.4x	0.7x	0.3x
Dividend Yield	0.0%	0.2%	0.0%	0.8%	0.9%
Free cashflow yield	-1.7%	5.1%	5.2%	7.7%	22.5%

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 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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