

MIGROS

We are revising our expectations upwards for Migros, after the strong performance in the first half of the year. We are increasing our target price for Migros <MGROS TI> from 228.00 TL per share to 623.00 TL per share and we maintain our BUY recommendation. Our 12M target price offers 68% upside potential. We think Migros will continue to grow in light of increased customer traffic in online and physical stores, ongoing store rollouts, high operating leverage and strong cash position. We have a constructive outlook for the rest of the year with a strong operational performance in 6M23 and the competitive price strategy implemented in the inflationary period. In our valuation, we calculate that Migros will increase its net income in the 2023T period by 62% YoY and its 2024T period net profit by 60% YoY. MGROS trades at 16.1x P/E multiplier in our 2023E and 10.1x P/E in our 2024E forecasts.

Increasing customer traffic in online and physical stores supports sales growth... Migros' total number of stores increased by 419 in the first half of the year compared to the same period of the previous year and reached 3,100. In the same period, the total sales area grew by 8.6% YoY to 1,860,000 sqm. The ongoing growth in both online and physical store channels supports Migros' market share gain. Considering the increasing momentum in traffic and basket size, Migros' 2Q23 net sales increased by 106% compared to last year, and 1H23 sales reached 60,135 million TL up by 113% YoY. We calculate net sales in 2H23 to reach TL 84,779 million with an annual increase of 83% and a 41% increase QoQ. We expect Migros will open 258 new stores in 2H23 and maintain its strong market share in the food retail market with the strong performance of its online segment. Considering the high food inflation and the strong trend of consumer demand, we think that growth will continue in 2H23.

The growth trend in the online sales channel continues... MGROS has online sales platform Migros Sanal Market serving throughout Turkey. In 1H23, the number of stores providing online services increased by 73 YoY and reached 1,028 units. Online sales (excluding tobacco and alcohol) in 2Q23 increased 135% YoY to TL 4.8 billion, while sales in 1H23 increased 134% YoY to TL 8.9 billion. Online channels' share in total sales increased to 16.7% (excluding tobacco and alcohol products) in 1H23 from 16.0% in 1H22. Considering the contribution of the growth in online sales to the total sales and operational performance, we think that this will be one of the main catalysts supporting the growth of Migros.

Risks... We consider that i) possible regulatory changes that will restrict organic growth ii) a sharp contraction in food prices iii) possible traffic slowdowns in line with customer preferences could be the major risk factors for Migros.

Rating

Buy

Target Price

TL 623.00

Return potential

68%

Share Data

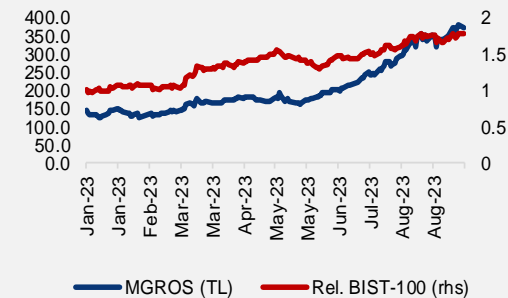
Ticker:	MGROS TI
Share price (as of 11.09.2023)	370.80
Share price (52 week range)	123.2 / 379.0
Market cap. (TL mn - USD mn)	67,135 - 2501.2
# of shares (mn) & free float	181.1 - 51%
Foreign Ownership Rate	40.87%
Market	Star
Industry	Food Retail

Avg. trading volume	1M	3M	12M
USD mn	27.0	21.7	18.2

Price performance	1M	3M	Y-t-D
TL	8%	93%	157%
USD	9%	69%	79%
Rel. to BIST-100	3%	33%	74%

Forecasts (TL mn)	2022	2023E	2024E
Revenues	74,502	144,914	242,556
EBITDA	5,968	9,841	17,340
Net Earnings	2,570	4,166	6,677

Valuation	2022	2023E	2024E
P/E	26.1x	16.1x	10.1x
P/BV	16.6x	8.4x	5.1x
EV/EBITDA	10.7x	6.5x	3.7x
EV/Sales	0.9x	0.4x	0.2x
Dividend Yield	0%	1%	2%



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Competitive private label product prices support the strong position in the market... Migros offers its own branded products to consumers at affordable prices. Migros reflects the purchase price changes of its own branded products to a lesser extent to its customers within the framework of customer satisfaction. Although this puts a bit pressure on the operational profit margin, supports customer satisfaction. On the other hand, Migros acquired significant gains in the market against its competitors through its competitive private label prices.

We revise our forecasts upwards following the strong performance in 6M23 period... Following the 2Q23 financial results, the company revised its guidance for 2023. Migros revised its consolidated sales growth expectation for 2023 to c.90% from 80 - 85% and lowered its EBITDA margin expectation to the range of 6.5 - 7.0% from 7.0 - 7.5%. Furthermore, the target of opening new stores was increased to c.450 from c.365 stores. The CAPEX forecast, which was c. 4bn TL for the 2023E period, was increased to c. 6bn TL. We expect net sales in 2023E

Exhibit: MIGROS – DCF Valuation

TL mn	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	144,914	242,556	334,284	435,890	534,789	638,555	749,453	871,700
Growth%	94.5%	67.4%	37.8%	30.4%	22.7%	19.4%	17.4%	16.3%
EBITDA	9,841	17,340	24,055	31,423	38,446	45,692	54,792	63,257
Growth%	64.9%	76.2%	38.7%	30.6%	22.4%	18.8%	19.9%	15.4%
<i>EBITDA Margin</i>	6.8%	7.1%	7.2%	7.2%	7.2%	7.2%	7.3%	7.3%
Taxes paid on EBIT	-1,528	-2,923	-4,179	-5,607	-6,991	-8,445	-10,309	-12,056
CAPEX	-5,665	-6,561	-7,557	-8,403	-9,177	-9,839	-10,549	-11,309
Change in Net Working Capital	-5,535	-2,984	-4,194	-3,315	-1,577	-223	1,252	2,612
Free cash flow from operations	8,182	10,840	16,514	20,728	23,856	27,630	32,682	37,280
FCFF Margin	5.6%	4.5%	4.9%	4.8%	4.5%	4.3%	4.4%	4.3%
WACC	25%	25%	26%	26%	26%	26%	26%	27%
DFC	7,937	8,414	10,202	10,192	9,310	8,542	7,993	7,204
Terminal growth rate	5%							
Terminal Value	181,568							
PV of Terminal Value	35,087							
PV of FCFF	74,414							
PV of Terminal Value	35,087							
Enterprise Value	109,501							
Less:								
Latest Net Debt	-3,363							
Equity Value	112,864							
# of shares outstanding (mn)	181							
Fair Value per share (12-mth fwd)	623.00							
Current share price	370.80							
Upside / (Downside)	68%							

Source: Company Data, Tacirler Investment

Projected Financials

Balance Sheet	2019	2020	2021	2022	2023E	2024E	2025E
Cash	2,328	3,231	2,343	7,678	11,526	19,625	22,738
Accounts receivables	126	175	171	487	872	1,326	2,011
Inventory	2,666	3,340	3,800	10,905	18,159	26,035	36,555
Financial investments	6	2	388	35	50	65	80
Fixed assets	3,929	2,959	2,992	7,195	11,616	11,616	19,845
Other non-current assets	4,761	5,671	4,783	10,123	13,724	13,724	13,724
Total assets	13,817	15,378	14,476	36,424	55,946	72,391	94,952
Short-term financial loans	1,437	2,156	2,067	2,443	3,588	3,624	3,660
Accounts payables	5,744	7,339	7,345	21,040	34,213	45,528	60,927
Long-term financial loans	5,400	4,617	3,872	5,012	5,763	5,763	5,763
Other long-term payables	883	1,235	1,158	3,883	4,436	4,436	4,436
Non-current liabilities	13,465	15,347	14,442	32,378	48,000	59,351	74,786
Shareholders' equity	353	31	34	4,046	7,946	13,040	20,166
Paid in Capital	181	181	181	181	181	181	181
Other Equity	171	-150	-147	3,865	7,765	12,859	19,985
Total liabilities & equity	13,817	15,378	14,476	36,424	55,946	72,391	94,952
Net debt	4,509	3,541	3,597	-223	-2,175	-10,238	-13,315
Net working capital	-2,951	-3,825	-3,374	-9,648	-15,183	-18,167	-22,361
Per share (TL)							
EPS	-2.55	-2.23	1.98	14.20	23.01	36.88	53.74
BVPS	1.95	0.17	0.19	22.35	43.89	72.02	111.38
DPS	0.00	0.00	0.00	0.00	2.56	8.74	14.38
Ratios							
Profitability							
ROE	-93.5%	#####	1102.1%	126.0%	69.5%	63.6%	58.6%
Net margin	-2.0%	-1.4%	1.0%	3.4%	2.9%	2.8%	2.9%
Asset turnover	1.9x	2.0x	2.4x	2.9x	3.1x	3.8x	4.0x
Leverage	25.1x	76.1x	458.4x	12.5x	7.7x	6.1x	5.0x
ROA	-3.7%	-2.8%	2.4%	10.1%	9.0%	10.4%	11.6%
Leverage							
Financial debt/Total assets	49%	44%	41%	20%	17%	13%	10%
Net debt/Equity	12.79	114.02	105.59	-0.06	-0.27	-0.79	-0.66
Net debt/EBITDA	2.11	1.59	1.24	-0.04	-0.22	-0.59	-0.55

Income statement	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	22,865	28,790	36,272	74,502	#####	#####	#####
Gross profit	6,119	6,771	8,755	17,793	33,058	55,519	76,740
Operating expenses	-4,771	-5,390	-6,768	-13,003	-25,781	-41,601	-56,841
Operating profit	1,349	1,381	1,987	4,790	7,277	13,918	19,898
EBITDA	2,136	2,224	2,894	5,968	9,841	17,340	24,055
Other income, net	-517	-347	-1,279	-2,205	-2,356	-3,488	-4,445
Financial income, net	-1,243	-1,283	-699	-723	-432	-2,215	-3,446
Earnings before taxes	-441	-221	225	1,908	4,850	8,665	12,570
Tax expense	-30	-183	133	672	-642	-1,920	-2,740
Net earnings	-461	-403	359	2,570	4,166	6,677	9,731

Cashflow statement	2019	2020	2021	2022	2023E	2024E	2025E
EBITDA	2,136	2,224	2,894	5,968	9,841	17,340	24,055
Taxes on EBIT	92	1,147	1,169	-807	-1,528	-2,923	-4,179
Capital expenditures	129	389	-882	-2,195	-5,665	-6,561	-7,557
Chg. in NWC	-454	-874	451	-6,274	-5,535	-2,984	-4,194
Free cashflows to firm	1,903	4,634	2,731	9,240	8,182	10,840	16,514

Growth & margins	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	22%	26%	26%	105%	95%	67%	38%
EBITDA	87%	4%	30%	106%	65%	76%	39%
Net earnings	-45%	-13%	-189%	616%	62%	60%	46%
Gross margin	26.8%	23.5%	24.1%	23.9%	22.8%	22.9%	23.0%
Operating margin	5.9%	4.8%	5.5%	6.4%	5.0%	5.7%	6.0%
EBITDA margin	9.3%	7.7%	8.0%	8.0%	6.8%	7.1%	7.2%
Net margin	-2.0%	-1.4%	1.0%	3.4%	2.9%	2.8%	2.9%
Free cashflow margin	8.3%	16.1%	7.5%	12.4%	5.6%	4.5%	4.9%

Valuation	2019	2020	2021	2022	2023E	2024E	2025E
P/E	-145.7x	-166.6x	187.1x	26.1x	16.1x	10.1x	6.9x
P/BV	190.5x	2161.4x	1970.8x	16.6x	8.4x	5.1x	3.3x
EV/EBITDA	29.9x	28.7x	22.1x	10.7x	6.5x	3.7x	2.7x
EV/Sales	3.1x	2.5x	2.0x	0.9x	0.4x	0.2x	0.2x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.7%	2.4%	3.9%
Free cashflow yield	2.8%	6.9%	4.1%	13.8%	12.2%	16.1%	24.6%

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 30% in TL terms.

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

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