

MIGROS

OVERWEIGHT

Regaining market share with more room to grow

Oct 13, 2023

We are starting our coverage for Migros with an Overweight recommendation and set our 12M target price at TL527/sh (+TL5.2 expected DPS). Turkish food retailers enjoyed a solid growth in the market recently boosted by high inflationary environment and robust consumer traffic. With its 3,230 stores and 1,897k sqm selling space in Turkey, Migros is one of the large food retailers with consistently growing online operations. Migros is regaining its market share in FMCG sector in Turkey, through its growth oriented strategy. We expect Migros to post 93% y/y revenue growth in 2023E, on top of 105% growth last year. We expect growth to continue going forward with new store rollouts and LFL increase. Migros is trading at 14.4x PE on our 2023E estimates, with ~17% discount to its 3y median.

Regaining market share... Migros' market share improved gradually to 16.0% at 1H23-end from 14.4% 2H22-end, through its growth oriented strategy utilizing competitive pricing strategy and expanding sellable area. Migros opened 322 stores during the first nine months and reached 3,230 stores at 9M23-end. Migros' total selling space rose by 5.6% y-t-d to 1.9mn sqm at 9M23-end.

Expanding online business... Migros is expanding online business through introducing Migros Yemek (online food delivery service), Cloud Kitchen, Moneypay in the recent quarters. Accordingly, the share of online grocery business reached 16.7% at 1H23-end, from 16% in 2H22. We believe that the solid growth in online business help Migros to glorify its future growth outlook.

Lucrative 2023 guidance... Migros management guides: i) ~90% y/y revenue growth (1H23: 113% y/y), ii) Company EBITDA Margin (Incl. Net Other Income) 6.5-7% (1H23: 6.6%), iii) 450 new store openings (9M23: 322), iv) ~TL6bn Capex (1H23: TL1.4bn). We foresee TL144bn revenues for 2023E (with 93% y/y growth) with 7% EBITDA margin. We expect TL4.7bn net income for 2023E with 84% y/y growth.

Solid FCF generation... Apart from its solid operational performance, Migros enjoys generating huge FCF and runs with negative working capital, where the company will benefit from high interest rate environment. At 1H23-end, Migros sits on TL9.5bn net cash with -1.6x indebtedness ratio.

Risks... i) Any failure in the competition with hard discounters, ii) lower consumption growth could be the main risks for Migros.

Price Data

Current Price (TL, 13-Oct-23)	377.80
Current Mcap (TLmn)	68,402
12-mth Target Price (TL/share)	527.00
12-mth Target Mcap (TLmn)	95,416
12-mth Return Potential	39%
Dividend yield	1%

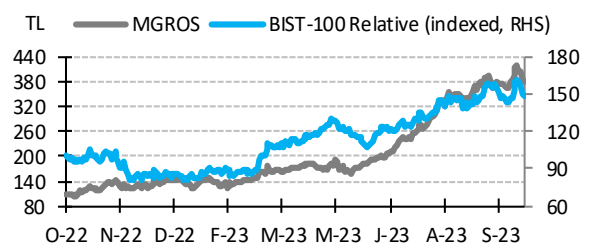
Financials (TL mn)	2021	2022	2023E	2024E
Revenues	36,272	74,502	144,026	218,185
% ch y/y	26	105	93	51
EBITDA	2,894	5,968	10,096	15,882
% ch y/y	30	106	69	57
Net Income	359	2,570	4,736	6,669
% ch y/y	n.m.	616	84	41
Margins (%)	2021	2022	2023E	2024E
EBITDA Margin	8.0	8.0	7.0	7.3
Net Margin	1.0	3.4	3.3	3.1
Gross Dividend Yield	0.0	0.7	1.4	1.9

Ratios	2021	2022	2023E	2024E
P/E (TL, x)	19.0	5.1	14.4	10.3
EV/EBITDA (TL, x)	3.2	2.1	6.4	3.9
Net Debt/EBITDA (TL, x)	0.8	-0.1	-0.4	-0.4
ROE (TL,%)	126.6	112.2	55.6	46.8

Stock Data

Ticker	MGROS.IS	MGROS TI
Sector		Food Retail
# of Shares (mn)		181
3M Av. Trd. Vol. (mn)		US\$26.0

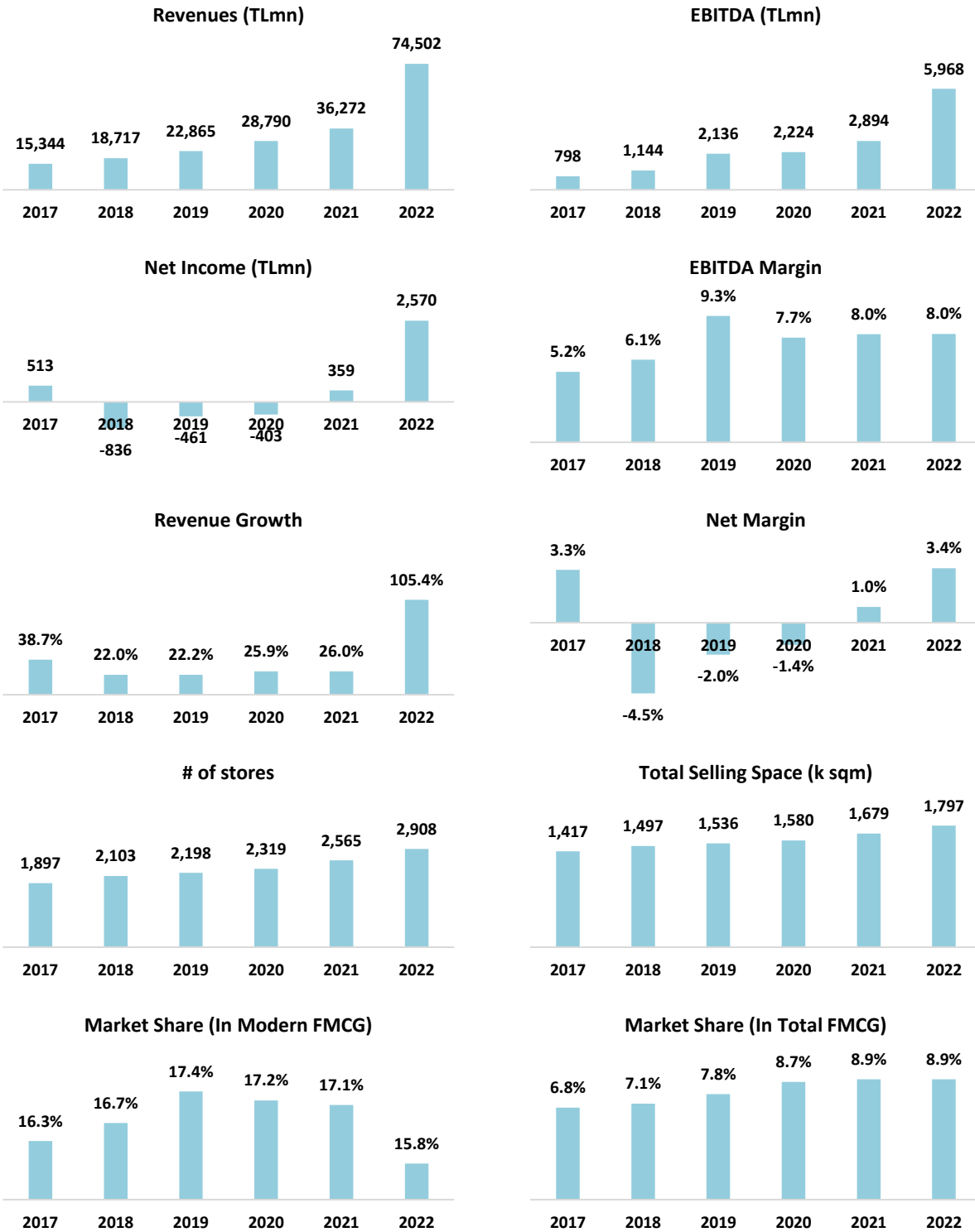
Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	-2%	56%	162%	96%
BIST-100 Relative	-4%	20%	75%	32%

Major Shareholders

MH Perakendecilik	49.2%
Others	50.8%

Exhibit: Migros in a nutshell


Valuation

We reached TL527/sh target price for Migros. We incorporated risk-free rate of 20%, equity risk premium of 5.5% and a beta of 0.77x. We calculated a WACC of ~23.4% in our valuation period.

Exhibit: Migros - DCF Model

TL mn	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	144,026	218,185	292,034	363,176	435,344	508,179	587,675	673,240
Adj. EBITDA	7,999	12,584	17,568	22,749	28,361	34,326	41,082	48,577
Tax	-1,263	-1,705	-2,327	-2,975	-3,702	-4,502	-5,461	-6,571
CAPEX	-5,608	-7,759	-10,094	-12,190	-14,176	-16,040	-17,961	-19,903
Chg in NWC	-3,974	-2,915	-4,113	-3,174	-2,496	-1,785	-1,358	-811
FCF	5,103	6,035	9,261	10,758	12,979	15,569	19,017	22,914

Revenue Growth, y/y	93.3%	51.5%	33.8%	24.4%	19.9%	16.7%	15.6%	14.6%
Adj. EBITDA Growth, y/y	66.5%	57.3%	39.6%	29.5%	24.7%	21.0%	19.7%	18.2%
EBITDA Margin	5.6%	5.8%	6.0%	6.3%	6.5%	6.8%	7.0%	7.2%
FCF Margin	3.5%	2.8%	3.2%	3.0%	3.0%	3.1%	3.2%	3.4%

WACC	23.0%	23.4%	23.4%	23.4%	23.4%	23.4%	23.4%	23.4%
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Terminal growth rate	7.0%
Enterprise Value	67,714
Target Mcap	95,416
12M TP	527.00
Upside	39%

Source: Company Data, Tera Yatirim

Exhibit: Migros – Summary Financials

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	18,717	22,865	28,790	36,272	74,502	144,026	218,185	292,034
COGS	-13,837	-16,746	-22,019	-27,518	-56,709	-110,631	-167,637	-224,217
Gross Profit	4,881	6,119	6,771	8,755	17,793	33,396	50,548	67,817
EBITDA	1,144	2,136	2,224	2,894	5,968	10,096	15,882	22,172
PBT	-1,047	-441	-221	225	1,908	6,133	8,422	12,130
Tax	212	-30	-183	133	672	-1,348	-1,684	-2,426
Net Income	-836	-461	-403	359	2,570	4,736	6,669	9,605
Revenue Growth	22.0%	22.2%	25.9%	26.0%	105.4%	93.3%	51.5%	33.8%
EBITDA Margin	6.1%	9.3%	7.7%	8.0%	8.0%	7.0%	7.3%	7.6%
Net Margin	-4.5%	-2.0%	-1.4%	1.0%	3.4%	3.3%	3.1%	3.3%

Source: Company Data, Tera Yatirim

Tera Yatirim Stock Ratings

Rating	Definition
OVERWEIGHT	The analyst expects that the stock will generate a return above that of the BIST-100 index over the next twelve months.
MARKETWEIGHT	The analyst expects that the stock will generate a return in line with that of the BIST-100 index over the next twelve months.
UNDERWEIGHT	The analyst expects that the stock will generate a return below that of the BIST-100 index over the next twelve months.

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