TURKISH EQUITIES / TRANSFER OF COVERAGE

Migros

30 January 2025

Outperform
Transfer of coverage

Close Price: TRY580.00
12M Target Price: TRY834.00
Upside Potential: 44%

Growth story in a dynamic market…

We transfer our coverage of Migros with Outperform rating with 12-month target price of TRY834.00/share, pointing to 44% upside potential. We consider Migros eligible to deliver sustainable real revenue growth in 2025E and upcoming periods thanks to its strategic market positioning and swift pricing ability in various macroeconomic conditions. On top of that, its profitable adoption in online sales– comprising nearly 20% of its revenues – suggests a potential for the expansion of new business models and products that offer significant future growth stemming from Türkiye's inelastic demand dynamics in food retails. For 2025, despite our assumption of 40% rate of blended wage growth, we forecast a 120 bps EBITDA margin improvement, implying an EBITDA growth of 37% in real terms. Furthermore, high Capex / Sales in 2024E to normalize in 2025E in addition to better net working capital management which translate into an average of c. 8.4% FCF yield between 2025F-2027F. Despite its healthy balance sheet and high capability of cash generation with upside risks on its successful execution of new business models, the stock still trades at 4.4x EV/EBITDA based on 2025 forecasts, implying a 31% discount to its historical average and 55% to its global peers. Despite its solid run of 46% over the last year, we maintain our "Outperform" rating for the stock on on-going operational earnings momentum and future prospects of the company in such a growing food retail industry of Türkiye.

Strong real top line growth on the horizon… We expect MGROS to generate TRY427bn revenues in 2025E with c. 10% real growth driven by 1)) a robust store expansion outlook in 2025E led by the supermarket concept, 2) the sluggish course of the disinflation process mainly stemming from stubborn food inflation, 3) diversity in concepts of stores such as Macrocenter for high income consumers, with the sale of tobacco and alcoholic beverages as well as private labels and 4) online operations, corresponding to 18.2% of total sales (excluding tobacco and alcohol) as of 9M24. Additionally, MGROS' wide presence in tourism areas in Türkiye plays a crucial role in terms of seasonality for top line growth, peaking in third quarter every year.

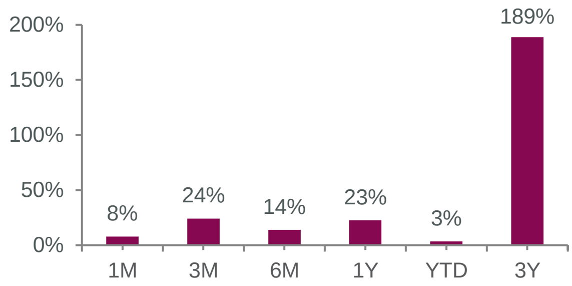
Decreasing inflation to salvage adjusted EBITDA margin… Inflation accounting adjustments in an inflationary period had a constrictive impact on the gross margin due to the inventory indexation effect. Thus, the slowdown in inflation in 2025 will have a lesser negative impact on the gross margin and EBITDA margin trajectory. We estimate EBITDA generation of TRY15bn for 2024 while forecasting TRY26bn in EBITDA for 2025, with 4.9% and 6.1% EBITDA margins respectively. Adjusting EBITDA according to term sales and purchases, the EBITDA margin would come in at 3.6% in 2025 and 6.2% in 2026.

A deep discount to international peers… MGROS is trading at a 2025E EV/EBITDA of 4.4x on our inflation adjusted numbers versus the 8.6x multiple level for global emerging food retailers, suggesting a 49% discount when compared to developed peers, MGROS' discount is even deeper at 60%. Along with on-going operational earnings momentum with its high capability of cash generation and its future prospects on the potential of new business models and products, we deem MGROS as an attractive cherry pick in 2025 among the Turkish equities universe.

Stock data

Bloomberg / Reuters	MGROS TI / MGROS.IS
Mcap (US$mn)	2,941
EV (US$mn)	2,811
Avg. Trd. Vol. (US$mn)	23
Free float	51%

Relative Performance to BIST100



Key Data (TRYmn)	2023	R.2023	2024E	R.2024	2025E
Revenues	181,674	262,299	309,201	389,647	427,496
Growth	*29%*		*70%*		*38%*
EBITDA	3,221	4,650	15,163	19,108	26,097
Growth	*-14%*		*371%*		*72%*
Net Profit	8,829	12,747	6,089	7,674	13,432
Growth	*-3%*		*-31%*		*121%*
P/E (x)	11.4		16.5		7.5
EV/EBITDA (x)	n.a		14.7		4.4
P/BV (x)	2.0		1.2		0.9
FCF yield (%)	1.4		5.4		5.7
Div. yield (%)	1.25		0.9		1.9

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Figure 1 – Summary financials & key metrics (TRYmn)

Income statement (TRYmn)	2023	Restated 2023	2024E	Restated 2024	2025E
Revenues	**181,674**	**262,299**	**309,201**	**389,647**	**427,496**
Gross profit	**34,003**	**49,093**	**63,863**	**80,479**	**98,061**
EBITDA	**3,221**	**4,650**	**15,163**	**19,108**	**26,097**
Depreciation	6,201	8,953	7,769	9,790	9,279
EBIT	**-2,980**	**-4,302**	**7,395**	**9,318**	**16,818**
Net other income	-3,630	-5,241	-13,929	-17,553	-10,687
Income from investing	352	508	689	868	157
Net financial income	17,050	24,616	15,021	18,929	12,204
Profit from associates	0	0	0	0	0
Profit before taxes and minorities	**10,792**	**15,581**	**9,174**	**11,561**	**18,491**
Taxes	-1,887	-2,724	-2,752	-3,468	-4,623
Minorities	77	111	333	419	437
Net income	**8,829**	**12,747**	**6,089**	**7,674**	**13,432**

Balance sheet (TRYmn)	2023	Restated 2023	2024E	Restated 2024	2025E
Current assets	**51,458**	**74,294**	**77,506**	**97,671**	**111,208**
Cash equivalents	17,414	25,142	32,789	41,320	50,161
Trade receivables	3,393	4,898	2,541	3,203	4,685
Inventories	29,792	43,014	38,985	49,128	52,349
Other current assets	859	1,240	3,190	4,021	4,014
Non-current assets	**73,709**	**106,420**	**103,716**	**130,700**	**136,314**
Financial assets	1,570	2,267	1,752	2,208	2,315
Tangibles	27,572	39,808	34,645	43,659	44,168
Intangibles	20,070	28,976	22,657	28,552	24,808
Right-of -use assets	22,045	31,828	39,005	49,153	57,852
Other non-current assets	2,452	3,540	5,656	7,127	7,171
Total assets	**125,167**	**180,715**	**181,221**	**228,371**	**247,522**
Current liabilities	**60,995**	**88,064**	**81,139**	**102,250**	**107,495**
Short-term loans	4,047	5,843	4,343	5,473	5,790
Trade payables	50,799	73,342	70,577	88,939	92,061
Other current liabilities	6,149	8,878	6,219	7,837	9,643
Non-current liabilities	**14,917**	**21,537**	**18,988**	**23,928**	**26,241**
Long-term loans	9,906	14,302	14,583	18,377	19,411
Other non-current liabilities	5,011	7,235	4,405	5,551	6,830
Minority interest	**312**	**451**	**460**	**579**	**585**
Shareholders' equity	**48,943**	**70,663**	**81,095**	**102,193**	**113,787**
Total liabilities and equity	**125,167**	**180,715**	**181,222**	**228,371**	**247,523**

Key metrics	2023	2024E TRY Real	2024E	2025E Real	2025E
Growth					
Revenue growth	29%	18%	70%	10%	38%
EBITDA growth	-14%	226%	371%	37%	72%
Net income growth	-3%	-52%	-31%	75%	121%
Profitability					
Gross Margin	18.7%	18.7%	20.7%	20.7%	22.9%
EBITDA margin	1.8%	1.8%	4.9%	4.9%	6.1%
Net margin	4.9%	4.9%	2.0%	2.0%	3.1%
Return on assets (ROA)	7.1%	7.1%	3.4%	3.4%	5.4%
Return on equity (ROE)	18.0%	18.0%	7.5%	7.5%	11.8%
Return on cap. emp. (ROCE)	18.0%	26.6%	9.6%	10.8%	17.5%
Leverage					
Net Debt (Cash)	-10,798	-15,590	-28,000	-35,285	-37,000
Net debt / Equity	-0.2	-0.2	-0.35	-0.35	-0.33
Net debt / EBITDA	-3.4	-3.4	-1.8	-1.8	-1.4
Efficiency					
Total asset turnover	1.5	1.5	1.7	1.7	1.7
Equity turnover	3.7	3.7	3.8	3.8	3.8
WC/Sales	-10%	-9%	-9%	-8%	-8%
Opex/Sales	-20%	-18%	-18%	-19%	-19%

(*) Adjusted with lease obligations

Cash flow (TRYmn)	2023	Restated 2023	2024E	Restated 2024	2025E
Adj. EBITDA	5,129	7,405	9,109	11,479	15,497
Change in working capital	5,397	7,793	12,418	15,649	10,326
Taxes (EBITDA x 25%)	1,879	2,713	4,897	6,171	6,573
Capital Expenditures	5,486	7,921	8,000	10,081	8,481
Adjustment	9,040	13,052	21,642	27,272	15,638
FCFF	1,407	2,032	5,435	6,850	5,755

Source: QNB Invest Estimates

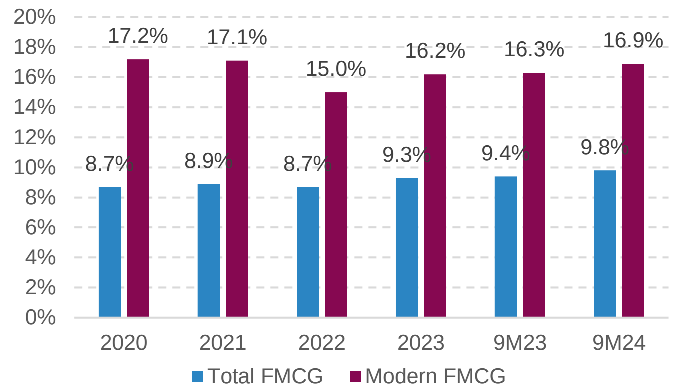
INVESTMENT THEME

We transfer our coverage of MGROS with Outperform rating and 12 – month target share price of TRY834.00, implying a 44% upside potential in 2025. Combined with a buoyant economy, consumer confidence and lower elasticity of demand for food, we predict a solid pace of store openings and expansion in total retail space for MGROS in 2025E. We expect around 250 - 300 new store additions in 2025, taking the total retail area to 2.15mn sqm (2024YE: 3,634 stores with a total c. 2.05mn sqm in retail area). We forecast c. 10% inflation adjusted top line growth in 2025 on the back of 1) the company's growth focus especially in the rural districts, 2) growth in online sales channels which deliver margins on a par with supermarket sales margins and 3) the sluggish course of disinflation, especially in the unprocessed food segment. We expect wage growth to chip away at MGROS' margins, especially in the first half of the year, before this effect diminishes in the second half when MGROS is historically strong with support from the tourism season. With unionized employees accounting for 60 - 65% of MGROS personnel expenses, whose pay will increase by more than the 30% hike in the minimum wage, we assume 40% blended wage growth in 2025. We forecast EBITDA growth of 37% in 2025, with a 120-bps expansion in the margin from 4.9% in 2024E to 6.1% in 2025. As a side note, we expect the adjusted EBITDA margin to expand by 222 bps in 2025 thanks to the relatively lower negative impact of interest rates on term purchase expenses. We believe MGROS' strategic positioning in the food retail market, with its private label products, to support a reasonable level of traffic growth while being supported by a higher range of SKUs in the market including tobacco and alcoholic beverages. In such a case, we would expect consumers to delay discretionary spending such as buying a new home, the purchase of durable goods or eating out while continuing their spending on food and beverages.

Strategic positioning in the market and a diversified business model… Unlike hard discounters in the food retail sector, Migros caters both to lower-income groups providing private label products in its SKU range and high-end income groups with premium products, tobacco and alcoholic beverages. This strategic positioning has always differentiated the company in the market with higher strength in the market structure while leading to a sustainable traffic growth outperformance over the most of the market players. On the top of that with its successful business model developed for the online sales channel, the company has proved not only its ability to adopt to the changing market dynamics but also its capability to sustain a profitable growth model. In more details, among its domestic peers, Migros currently has the highest share of revenue from online delivery operations in total revenue, accounting for 18.2% of its 9M24 revenue. Migros has built its digital ecosystem year-by-year, with a substantial acceleration of online operations during the Covid-19 pandemic while it has been one of the earliest movers in grocery and hot food delivery among food retailers. Initially, MGROS operated online sales using its street stores only as warehouses, bringing out items from the shelves; however, as the volume of sales has gathered pace, the company has started opening dark stores with lower rental costs, supporting the efficiency of its operations. From a profitability perspective, the company has successfully matched the profitability of the traditional business model in online sales within a short period, thanks to its rapidly acquired experience and swift business model adaption.

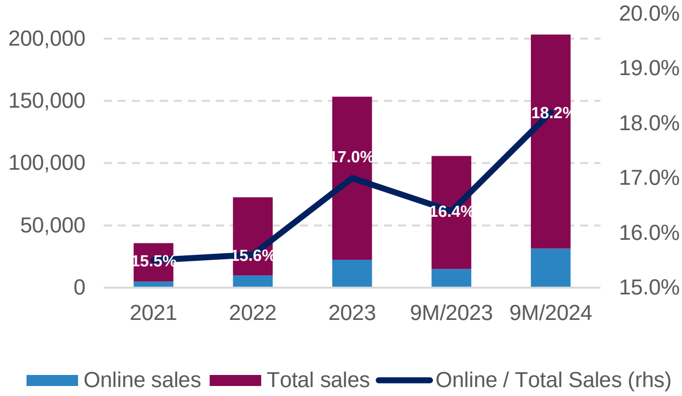
We think that the company will continue to differentiate itself in the market through sustainable market growth, rapid and profitable adoption in online sales and the expansion of new business models and products that offer significant future growth potential in the online space. Rather than relying solely on traffic growth driven by the market trends, the company is expected to achieve growth beyond overall market expansion thanks to the strong capabilities it has developed in the online segment. Over the past three years, starting with effective balance sheet management and demonstrating execution across different business lines, the management has strengthened confidence in its ability to drive innovative and profitable growth strategies in juicy Turkish retail market.

Figure 2– Migros FMCG market share



Source: Company data

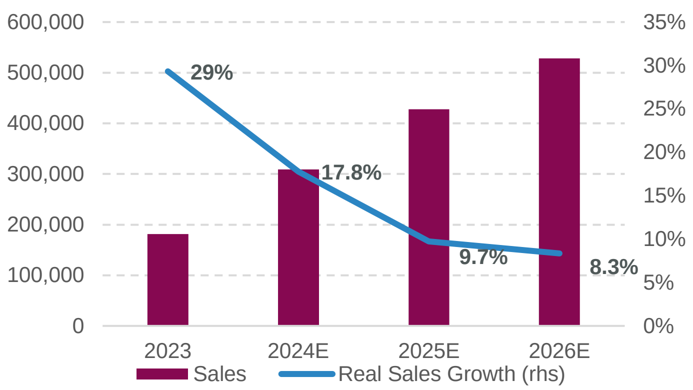
Figure 3– Share of online sales in total sales (excl. tobacco and alcohol) (Mn, TRY)



Source: Company data

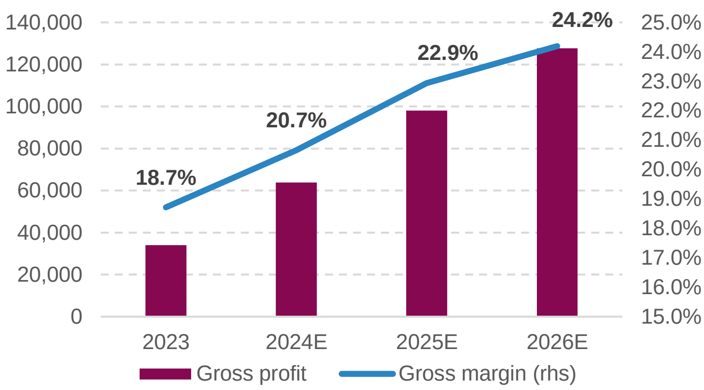
Strong real top line growth on the horizon: For 2025, we expect the company to generate TRY427bn revenues in 2025, implying a 10% real growth. The main factors behind our expectations are: 1) a robust store expansion outlook in 2025, led by the Migros supermarket concept, 2) the sluggish course of the disinflation process mainly stemming from stubborn food inflation, 3) diversity in the concepts of stores such as Macrocenter for high income consumers, the sale of tobacco and alcoholic beverages as well as private label goods and 4) its online operations, which corresponded to 18.2% of total sales in 9M24, which we expect to continue supporting the top line in 2025. In more details, we expect Migros to open 250 - 300 new stores in 2025 reaching 3,921 stores with 2.15mn sqm of total retail space. The company's diversified business model, offering different product segments to different consumer segments, will pave the way for growth in traffic in 2025, in our view. Additionally, Migros' wide presence in touristic areas throughout Türkiye will play a crucial role in terms of seasonality for top line growth, peaking in third quarters.

Figure 4– Migros: Revenue forecasts and annual real growth



Source: Company financials, QNB Invest Estimates

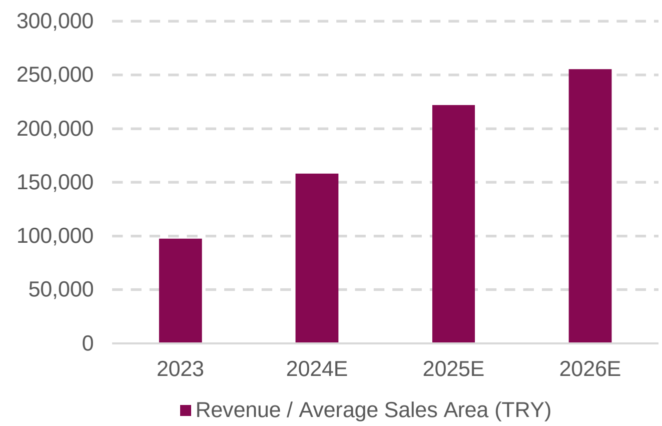
Figure 5– Migros: Gross profit and margins forecasts



Source: Company financials, QNB Invest Estimates

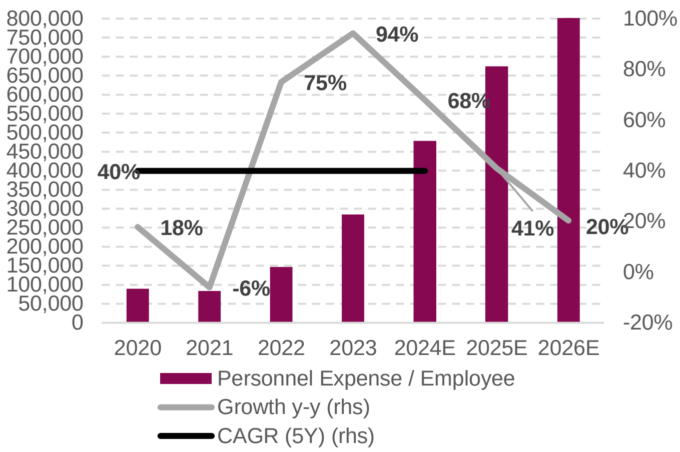
A promising margin outlook…. During the surge in inflation experienced in recent years, Migros and food retailers in general have benefited from the inventory effect on their gross margin expansion in nominal terms while inflation accounting has somehow normalized these positive implications on IFRS figures as of 2024 that IFRS margin is forecasted to materialize at 20%. However, the implications of inflation accounting is likely to be relatively limited in the coming period with our expected disinflation process trend while, the company's warehouse investments, 9 of which were finalized in 9M2024, are expected to support the company's efficiency, delivering margins in further quarters other than leaning on the inflation / inventory effects. Accordingly, we forecast a 23% gross margin for 2025 with inflation adjusted numbers, with a sustainable long-term average gross margin of 24% over our forecast period. The company's growth in store numbers and retail area develops with efficiency; in 2024E we estimate non-IAS revenue per sqm to have recorded 67% YoY growth, exceeding the 44.5% headline rate of inflation for the 2024-end. We forecast 35% YoY growth in revenue per sqm in 2025, in excess of our inflation expectation of 26%. This implies a sustainable operational earnings growth to be maintained in the coming period in real terms which is also highly welcoming in the quarterly earnings periods also.

Figure 6– **Migros: Revenue per square meter (TRY)**



Source: Company financials, QNB Invest Estimates

Figure 7– **Migros: Personnel expense per employee (TRY) (non-IAS)**



Source: Company financials, QNB Invest Estimates

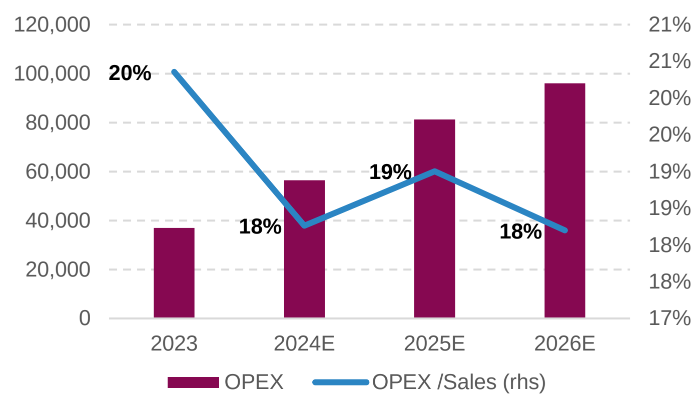
EBITDA margin expansion is likely despite a minimum wage hike above the inflation forecast: On the EBITDA front, for 2025, the minimum wage has been increased by 30% to TRY22,105 per month (USD624). The increase is at the lower end of market expectations. The limited rise in the minimum wage was welcomed by the stock market in general and by retailer sector investors. Since unionized employees account for 60 - 65% of MGROS's personnel expenses, and with these employees to see their pay increase by more than the minimum wage, we assume a 40% increase in blended wage growth in 2025E. Each 10 ppt increase in personnel costs would erode MGROS' EBITDA margin around 125 bps (all else being equal) according to our calculations. While we still expect EBITDA margin to get hit by the wage increases especially in 1Q25, we retain our overall EBITDA margin forecast for 2025.

As of 9M24, personnel expenses corresponded to approximately 11% of net sales, and we estimate the full year level to be around 9M24 levels. For 2025, and throughout our overall forecast period, we expect the personnel expenses / sales ratio to average of 12% while we expect the opex / sales ratio to average 19% in 2025 and beyond.

Since around 45% of employees earn the minimum wage in Türkiye, the annual adjustment in the minimum wage comes under the spotlight, especially towards the year end, as it is crucial for companies' budgeting processes. According to the Social Security Institution data, 80% of employees in Türkiye earn less than twice the minimum wage. As food retail is one of the typical labor-intensive sectors, the minimum wage plays a crucial role in retailers' opex management as well as its effects on consumer price index. On the other hand, the minimum wage and its spillover effect on general wages affects the general purchasing power of households, and so is a revenue growth factor for food retailers.

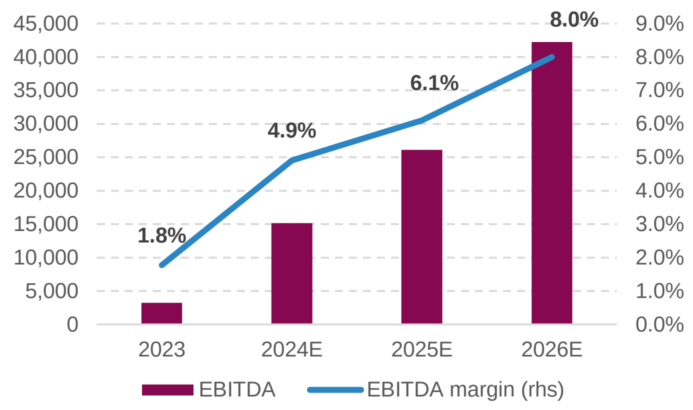
Inflation accounting adjustments in inflationary period had a constrictive impact on gross margins due to inventory indexation effect. Thus, the rebalancing on inflation will have a milder negative impact on the gross margin and EBITDA margin trajectory in 2025. We estimate that Migros wrote TRY15bn of EBITDA in 2024 and will achieve TRY26bn of EBITDA in 2025E, with 4.9% and 6.1% EBITDA margins respectively. With adjustments to EBITDA considering term sales and purchases, the EBITDA margins would come in at 3.6% for 2025 and 6.2% for 2026.

Figure 8– **Migros: Opex forecasts (mn,TRY) (IAS-29)**



Source: Company financials, QNB Invest Estimates

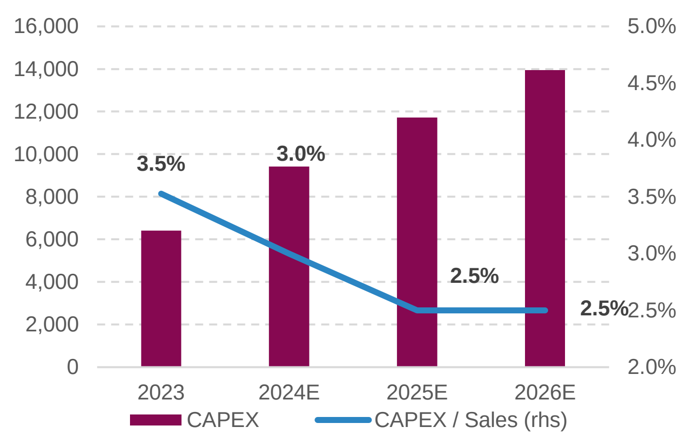
Figure 9– **Migros: EBITDA and EBITDA margin trajectory (mn,TRY) (IAS-29) (%)**



Source: Company financials, QNB Invest Estimates

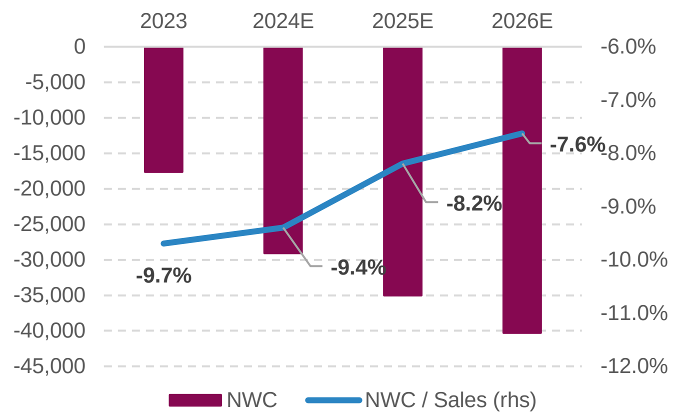
CAPEX to normalize after its high levels in 2024 … MGROS recorded TRY6.07bn capex in 9M24, corresponding to 2.9% of 9M24 revenue. The focal areas of the company's investment were 1) opening new stores, 2) increasing the number of warehouses and distribution centers and 3) ESG investments such as purchasing land and the installation of solar panels and other maintenance activities. We expect MGROS' CAPEX to have ended 2024 at around 3% of total sales due to such expenditures; however, in the coming periods we expect CAPEX to normalize at slightly lower levels around 2.5% throughout our forecast period. MGROS will continue investing in store growth and efficiency, opening new stores, IT and R&D infrastructure, and new distribution centers as well as the maintenance of the existing infrastructure. The company managed to improve its net working capital, mainly thanks to improved inventory management. The cash conversion cycle significantly improved from -45 days at the end of 2023 to -55 as of 9M24. We assume similar levels for our forecasting period, leading to an NWC / sales ratio of (negative) 8.2% for 2025 and (negative) 7.6% for 2026.

Figure 10 – **Migros: CAPEX forecasts (mn,TRY)**



Source: Company financials, QNB Invest Estimates

Figure 11 – **Migros: Net Working Capital (NWC) forecasts**



Source: Company financials, QNB Invest Estimates

Dividend policy… MGROS distributed a gross dividend of TRY1.25bn out of 2023 net earnings, corresponding to a 14% payout ratio according to inflation adjusted net income numbers. As a side note, the company's dividend distribution policy rate is 50% out of net distributable profit. Last November, the company announced an advance dividend payment amounting to a TRY520mn gross dividend (TRY2.8721/share) out of 9M24 net income. We modelled total of 14% payout ratio out of 2024E inflation adjusted net income, bringing an additional TRY333mn (TRY1.84/share) on top of the advance dividend announced in last November. Remaining conservative, we assume a 14% dividend payout ratio for 2025 and 2026, implying a dividend of c. TRY1.9bn (TRY10.39/share with a 1.79% dividend yield) for 2025, and TRY3.2bn (TRY17.55/share, yield of 3.03%) for 2026. In case of the continuation of conservative dividend distribution as we estimate, MGROS becomes likely to accumulate substantial amount of free cash flow that our forecast net cash level for 2027 suggests c. 20% CAGR in net cash level between 2024-2027. This may pave a way for acceleration in dividend payments in the near future while the company may maintain its solid growth story with higher investments thanks to its strong balance sheet position.

Valuation

We valued MGROS using DCF methodology and found a 12-month target price of TRY834/share. Our 12-month TP offers 50% upside potential at the latest close. In our DCF valuation model, we have incorporated an average weighted average cost of capital (WACC) of ≈26% for our long-term valuation horizon, based on a 40% cost of borrowing, 39% of cost of equity (35% risk free rate, 5% equity risk premium and a 0.9 stock beta) for 2025, which is assumed to decline until 2033. Finally, we set a terminal growth rate of 17%.

To recap, we have incorporated a non-IAS valuation which is based on nominal terms for our DCF valuation.

Our DCF model assumptions and are as follows;

- We expect 33% non-IAS revenue growth in 2025, exceeding our inflation expectation, with a 20% CAGR over our forecasting period between 2025 – 2033.
- We forecast a better non-IAS EBITDA adjusted according to terms sales and purchases in 2025 on the back of relatively low inflation leading to better terms sales expenses, helping margins recover by 100 bps YoY to 4.6% before normalizing at c. 5% throughout the remainder of our forecasting period.
- The company had a substantial CAPEX spend in 2024 with new store openings, efficiency investments for new distribution centres and renewable energy investments, which are expected to bring the CAPEX/Sales ratio to around 3%. For the coming periods, we expect MGROS' CAPEX/Sales ratio to edge down to 2.5%. For 2025, we forecast an FCF of TRY5.6bn, corresponding to 1.7% of our non-IAS 2025E sales. For the long term, our forecast for the average FCF margin is 1.3%.
- Based on 2025E prospective earnings, MGROS trades at an EV/EBITDA of 4.2x, implying a 58% discount to international peers.

Figure 12 – Summary of DCF Model

MGROS (TRYmn)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Revenues	**254,860**	**339,236**	**463,184**	**585,055**	**726,783**	**895,460**	**1,089,647**	**1,270,676**	**1,481,757**	**1,727,875**
Revenue Growth	*75%*	*33%*	*37%*	*26%*	*24%*	*23%*	*22%*	*17%*	*17%*	*17%*
EBIT	18,531	21,942	28,698	32,068	39,671	49,430	54,862	66,323	76,412	91,130
Adj. EBITDA	9,109	15,497	23,310	28,858	35,849	44,169	50,479	58,865	68,644	80,045
Adj. EBITDA Margin	*3.6%*	*4.6%*	*5.0%*	*4.9%*	*4.9%*	*4.9%*	*4.6%*	*4.6%*	*4.6%*	*4.6%*
EBITDA	22,259	26,293	35,271	41,626	51,710	63,711	74,258	86,595	100,980	117,753
EBITDA Margin	*8.7%*	*7.8%*	*7.6%*	*7.1%*	*7.1%*	*7.1%*	*6.8%*	*6.8%*	*6.8%*	*6.8%*
Taxes	-4,897	-6,573	-8,818	-10,406	-12,927	-15,928	-18,565	-21,649	-25,245	-29,438
Inc./dec. in W/C	12,418	10,326	13,236	15,093	17,511	19,409	20,634	23,168	24,393	28,442
Rent Expense	-3,195	-5,015	-6,396	-8,045	-9,795	-11,925	-14,397	-17,381	-20,984	-25,332
Capex	-8,000	-8,481	-11,580	-14,626	-18,170	-22,387	-27,241	-31,767	-37,044	-43,197
FCF	**5,435**	**5,755**	**9,753**	**10,873**	**12,468**	**13,340**	**10,910**	**11,236**	**9,764**	**10,521**
WACC		38.8%	28.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%
PV of FCFs	**42,383**									
Terminal Growth Rate	17%									
Terminal Value	168,490									
PV of TV	**29,188**									
Value of Firm	71,571									
Net Debt (Cash) (2025E) (*)	-37,000									
Equity Value	**108,571**									
12-mo Target Value	**150,967**									
12-mo Target Share Price (TL)	**834**									
# of shares	**181**									
Current price	**580.0**									
Upside	**44%**									

Source: QNBI Estimates

Figure 13 – Peer Analysis

Ticker	Company Name	Market Cap (USD,Mn)	EV/EBITDA 2025E	EV/EBITDA 2026E	P/E 2025E	P/E 2026E
MGROS TI Equity	Migros	2,941	4.4	2.1	7.8	4.6
Developed peers			**11.2**	**10.4**	**19.0**	**19.4**
WMT US EQUITY	Wal Mart	782,452	19.9	18.2	39.1	35.2
COST US EQUITY	Costco	428,473	33.1	30.7	52.9	48.5
KR US EQUITY	Kroger	43,764	7.7	7.5	13.5	12.7
TSCO LN EQUITY	Tesco	30,506	7.1	6.9	13.6	12.4
DLTR US EQUITY	DOLLAR TREE	16,117	9.8	9.1	13.8	12.2
JMT PL EQUITY	Jeronimo Martins	12,557	7.0	6.5	18.8	16.9
CA FP EQUITY	Carrefour	9,571	5.4	5.1	7.7	6.7
SBRY LN EQUITY	Sainsbury	7,407	4.8	4.6	11.4	10.3
CO FP EQUITY	Casino	430	5.6	5.3	0.6	n.a
Emerging peers			**8.6**	**7.9**	**15.7**	**13.7**
WALMEX* MM Equity	WALMART DE MEXICO	48,107	10.1	9.3	17.9	16.5
SHP SJ EQUITY	Shoprite	9,017	9.8	8.7	19.9	18.0
LPP PW EQUITY	LPP	7,435	7.8	6.9	15.8	14.5
CENCOSUD CI Equity	CENCOSUD SA	6,689	7.7	7.2	11.1	11.1
COLR BB EQUITY	Colruyt	4,654	5.1	4.9	12.3	11.6
SORIANAB MM Equity	ORGANIZACION SORIANA S.A.B-B	2,550	6.0	5.9	12.9	11.8
AOTHAIM AB Equity	Abdullah Al Othaim	2,543	13.8	12.5	22.3	22.6
SPP SJ EQUITY	Spar	1,400	8.4	7.5	13.0	10.1
023530 KS Equity	LOTTE SHOPPING CO	1,060	8.8	8.5	16.4	7.3
Peers' average			**9.9**	**9.2**	**17.4**	**16.4**
MGROS vs. peer average			-55%	-77%	-55%	-72%

Source: Bloomberg, QNB Invest Estimates

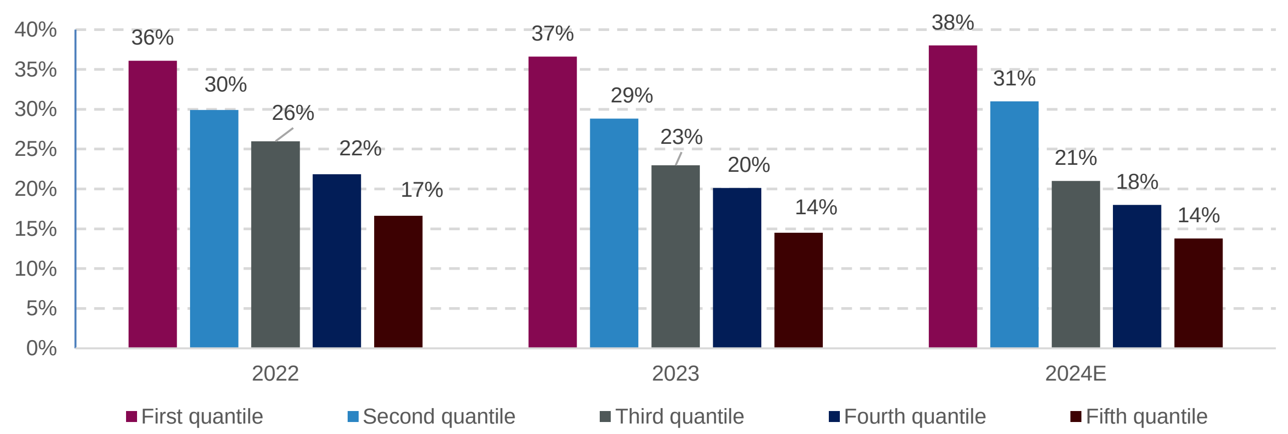
Sector Outlook

The modern retail sector in Türkiye first started its operations in 1954 with Migros as a joint venture between the Swiss based Federation of Migros Cooperatives and the Istanbul Municipality. However, the acceleration of growth in the sector took place in the 1990s as local and foreign retailers entered the Turkish market.

The Food retail sector in Türkiye mainly consists of two arms: traditional channels and organized retailers. Organized retailers can be summarized as discount chains, nationwide supermarket chains, hypermarkets, convenience stores and local or regional chains while traditional channels are independent small sized local groceries, street markets, and licensed tobacconists. Currently, organized retailers capture a 55% share of the market while traditional channels have a 45% share - still a high percentage compared to developed markets.

Has the sector reached its frontiers? Currently, approximately 45,000 stores are organized retailers, comprising 55% of total food retail market. Given that organized retailers account for 80-90% of the total market in developed markets, we think there is still a long way for organized retailers to go, especially those which have the ability to reach out to consumers utilizing omnichannel and a wider range of products in different ranges of consumer groups. With its very dynamic population of 85mn citizens plus refugees, with a median age of 34, Türkiye still carries significant growth potential for food retailers. The country's 2023FY GDP was USD1.024trln, with consumption comprising 59.1% of GDP which was 56.6% in 2019. Overall 21% of average household income is spent on food purchases according to TUIK. For the first quantile which means the household segment that takes the lowest share in the economy, that increases to 38%. Consumer confidence remains solid, with credit card transactions for food and shopping centers at all-time high levels. We expect the macroeconomic outlook to favor MGROS in its aggressive growth trajectory in 2025 with store openings as well as efficiency measures.

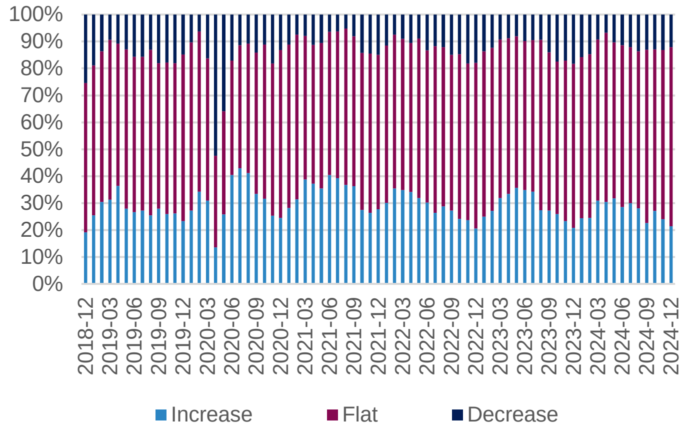
Figure 14 – Share of food and beverage spending in household income



Source: TUIK

What to expect in 2025? Despite high policy rates and the contractionary monetary policy implemented since mid-2023, consumer spending has still not been brought under control and remains brisk. With an economic confidence index survey indicating that households expect their economic outlook to improve in the next 12 months slightly higher than last 5-Y average, we expect food shopping to remain buoyant in 2025, while expecting real revenue growth of around 10% for MGROS in both 2025 and 2026. The consistent decline in seasonally adjusted unemployment rates since the end of pandemic also supports the consumption outlook in the economy. In an event of a distressed macroeconomic environment, consumers may prefer delaying their spending on buying homes, white goods or for a new car; however, due to its inflexible nature, households will continue to spend a certain proportion of their income on food and other staples, in our opinion. At this point, we expect MGROS' strategic market positioning to play a crucial role in generating traffic growth thanks to its private label and discounted product offerings. Although MGROS does not position itself as a hard discounter, around 7% of its total SKUs were private label items as of 9M24, offering its customers discounted prices with a particular level of quality.

Figure 15– CBRT tendency survey: Direction of your output in the next three months?



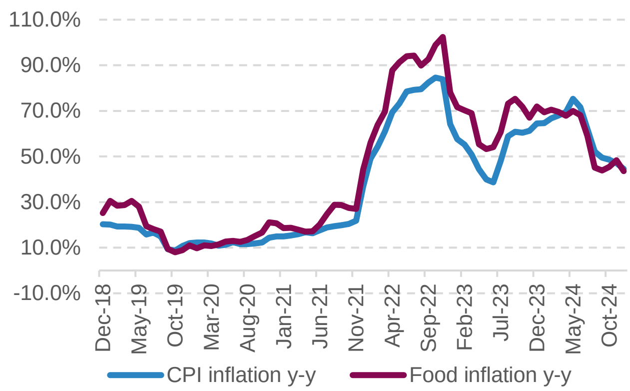
Source: The Central Bank of Türkiye (CBRT)

Figure 16 – Seasonally adjusted unemployment rates

Source: TUIK

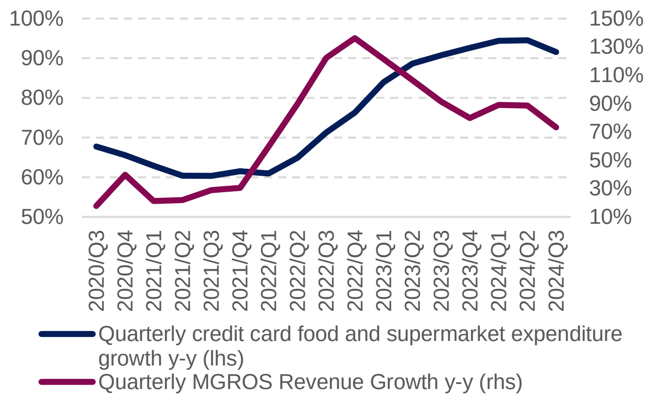
Inflation on the way down - is the era of high inflation over in Türkiye? The annual headline rate of inflation fell to 44.5% in 2024, indicating a slowdown in general price hikes when compared to the 2023YE rate of 65%. However, sticky food inflation still remains as a challenge. The annual rate of food inflation in 2024 was 43.5%, remaining on a high plateau. We expect MGROS' gross margin to normalize in 2025E as inflation softens, losing some of the advantage from inventory pricing. Intensive competition in the market will continue in 2025, although the sluggish pace of the disinflation process, especially in the unprocessed food segment, together with MGROS' ability to adjust prices swiftly will continue to support MGROS financials, in our view.

Figure 17– CPI vs. food inflation



Source: TUIK

Figure 18 – Credit card expenditures growth QoQ



Source: TUIK, MGROS financials

QNB Invest Rating System

We employ a relative scale in our rating system (i.e. Market **Outperform, Neutral, Underperform**) in order to better present relative value propositions and more actively pursue long vs. short ideas at the BIST. The relevant benchmark is the broader Turkish stock market, using the BIST-100 index as a basis. The ratings also incorporate a certain degree of relativity within the analyst's own stock coverage universe due to asymmetric return expectations among the industries under our BIST coverage. The rating system combines analysts' views on a stock relative to the sectors under coverage, and the sector call relative to the market, together providing a view on the stock relative to the market.

Individual ratings reflect the expected performance of the stock relative to the broader market over the next 6 to 12 months. The assessment of expected performance includes a function of near-term company fundamentals, industry outlook, confidence in earnings estimates and valuation, and other factors.

An essential element of our rating methodology involves benchmarking a 12-month expected return against the cost of equity. We set a required rate of return for each stock, calculated from our risk-free rate and equity risk premium assumptions. The price target for a stock represents the value that the stock is expected to reach or sustain over the performance horizon of 12 months, according to the view of the analyst.

We have separated the stocks under our coverage into two groups, mainly with respect to their liquidity (market cap, free float market cap and historical average daily trading volume) as small-cap stocks exhibit different risk/return characteristics to more-liquid large-caps. For the purposes of the relative stock rating, however, stocks within each group will be considered on an unweighted basis with regard to their market capitalization.

For a stock to be assigned an **Outperform** rating, the implied return *must* exceed the required rate of return by at least 5 percentage points over the next 12 months for our larger-cap stock coverage, or by 10 percentage points for the small-cap group. For a stock to be assigned an **Underperform** rating, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months. Stocks between these bands will be classified as **Neutral**.

When the potential upside of an *average* stock in our coverage exceeds its required rate of return (i.e. the market upside exceeding the implied average cost of capital), a greater number of stocks would fall into the aforementioned Outperform (Buy) category, illustrating the significance of the "relative return" concept (vis-à-vis absolute return) in picking better investment ideas with a positive alpha. The same holds true when the potential upside of an *average* stock in our coverage falls short of its required rate of return.

In this regard, as a supplemental methodology, we rank the stocks in our coverage according to their notional target price with respect to their current market price, and then categorise the top group (approximately 40-50% of the companies under coverage) as Outperform, the next 40-50% as Neutral and the lowest 10-20% (and no less than 10%) as Underperform.

It should be noted that the expected returns on some stocks may at times fall outside the relevant ranges of the applicable respective rating category because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges are permitted but becomes subject to review.

Also note that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

Outperform. We expect the stock to outperform the BIST-100 over the next 6 to 12 months.

Neutral (Market Perform). We expect the stock to broadly perform in line with the BIST-100 index over the next 6 to 12 months. (Although we would normally have a neutral assessment of stocks in this category, if a stock has gone through a period of market underperformance, it would be an indication that the stock may be expected to improve its performance relative to market averages in the coming period, and vice versa).

Underperform. We expect the stock to underperform the BIST-100 over the next 6 to 12 months.

N/R. Not Rated.

U/R. Under Review.

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