

BUY

UNCHANGED

TARGET PRICE	TRY671.60
CLOSE	TRY470.00
UP/DOWNSIDE	+42.9%
PRIOR TP	TRY690.89
CHANGE IN TP	-2.79%

A complicated inflation story

■ We lower our TP to TRY671.60; maintain BUY

In the past couple of years, high inflation, strong economic activity, and steady employment, coupled with bi-annual adjustments in minimum wages have boded well for retailers, paving the way for real growth in their basket sizes, post-Covid. However, with the current economic policies targeting lower inflation with full force, the question arises if retailers will face headwinds going forward. While from an operational point of view, we incorporate a slower headline growth from 4Q24 onwards, our 2024 full year estimates reflect meaningful earnings growth, on the back of strong operational performance and high financial income. We present our inflation-adjusted (IA) estimates in this note. Due to downward adjustments in EBITDA and EPS, we lower our DCF-based TP to TRY671.6 (TRY690.9 previously). While retailers are not the first stocks to play the disinflation theme, MGROS has underperformed the market by 8% over the last three months. We believe these concerns are fully priced in, and that the stock trades at a meaningful discount. On our IA estimates, MGROS is trading at 2024E P/E of 7.2x, which is below its last four-year average of 11x and peers' average of 22x. We find MGROS attractive at current levels and retain our BUY rating.

■ The dilemma of the minimum wage

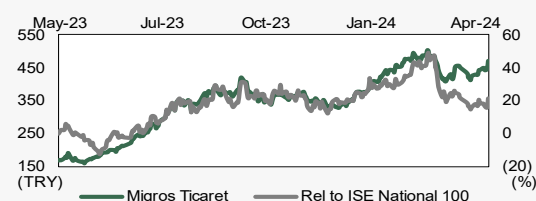
In contrast to the last two years trend, there is unlikely to be a second hike in minimum wages in July 2024, after the 50% increase in January 2024. In our view, this could result in a steady decline in purchasing power, putting our 4Q24 revenue growth at risk. For 2H24, we expect CPI inflation of 12%, which limits the purchasing power. For 2024, we expect MGROS to post real revenue growth of 5%, supported by store expansion and continued investments. With a very limited price difference between MGROS and discounters, we expect negligible impact of downtrading.

■ Weak IAS29 EBITDA margin is only part of the picture

In 2023, MGROS' profit margin suffered due to inventory restatement, to reflect inflation. The company reported IA EBITDA margin of -0.3% as of the end of 2023, vs 5% EBITDA margin in 9M23. This was unexpected, given the high inventory turnover. We do not expect inflation adjustments to be drastic going forward. We expect margins to stay positive, supported by improved operational efficiencies and a lower rate of inflation, resulting in less severe inventory adjustments. Note that, while MGROS' operational adjustments were not particularly positive, the company posted strong net income of TRY8.8b in 2023 (USD300m vs last three years average of USD46m), supported by its asset-light and levered business model.

KEY STOCK DATA

YE Dec (TRY m)	2023A	2024E	2025E	2026E
Revenue	181,674	267,678	367,602	481,659
Rec. net profit	8,829	11,761	14,152	19,056
Recurring EPS (TRY)	48.76	64.96	78.16	105.25
Prior rec. EPS (TRY)	35.48	64.44	68.70	-
Chg. In EPS est. (%)	37.4	0.8	13.8	-
EPS growth (%)	(3.4)	33.2	20.3	34.7
Recurring P/E (x)	9.6	7.2	6.0	4.5
Dividend yield (%)	1.5	5.5	6.7	9.0
EV/EBITDA (x)	25.7	9.5	4.3	2.8
Price/book (x)	2.4	1.4	1.0	0.7
Net debt/Equity (%)	(7.0)	(13.5)	(15.6)	(18.7)
ROE (%)	27.8	24.3	19.4	19.0



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	13.0	11.5	177.9
Relative to country (%)	(1.6)	(6.0)	21.3
Next Results	May 2024		
Mkt cap (USD m)	2,631		
3m avg daily turnover (USD m)	22.7		
Free float (%)	51		
Major shareholder	AG Anadolu Grubu Holding (49%)		
12m high/low (TRY)	501.50/160.31		
3m historic vol. (%)	36.2		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	181		

Sources: FactSet estimates; TEB Investment/BNP Paribas estimates

* Previous estimates are not comparable with new ones, as they are not compatible with IAS 29 inflation accounting. All inflation adjusted figures in this note are shown in terms of purchasing power of TRY at their respective year-ends, except for 2022, which is shown in 2023 prices for better comparison with announced financials.



Evren Gezer
evren.gezer@tebyatirim.com.tr
 +90 216 636 4533

Our research is available on Refinitiv, Bloomberg, S&P Global, FactSet and ONEaccess.

Investment thesis

With the current economic policies targeting lower inflation with full force, the question arises if retailers will face headwinds going forward. While from an operational point of view, we incorporate a slower headline growth from 4Q24 onwards, our 2024 full year estimates reflect meaningful earnings growth, on the back of strong operational performance and high financial income.

Due to downward adjustments in EBITDA and EPS, we lower our DCF-based TP to TRY671.6 (TRY690.9 previously). On our IA estimates, MIGROS is trading at 2024E P/E of 7.2x, which is below its last four-year average of 11x and peers' average of 22x. We find MGROS attractive at current levels and retain our BUY rating.

Catalyst

Potential catalysts include higher-than-expected real TRY appreciation.

Risk to our call

Downside risks to our call include: 1) a new retail law that may curb growth; 2) a faster-than-expected decline in inflation; and 3) an unexpected mid-year minimum wage hike.

Company background

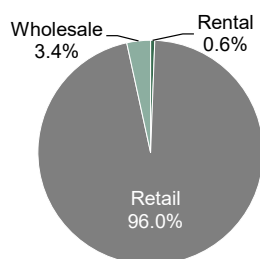
Migros is the oldest organised retailer in Türkiye. With more than 1.9m sqm sales area and online operations, it is also the largest player in the supermarket segment. The company also owns a shopping mall in Kazakhstan.

Key executives

	Joined	Title
Ozgur Tort	2008	CEO
Ferit Cem Dogan	2019	CFO

<http://migroskurumsal.com.tr>

Principal activities (revenue,2023)



Source: TEB Investment/BNP Paribas estimates

Event calendar

Date	Event
May 2024	1Q24 results
August 2024	2Q24 results
October 2024	3Q24 results
February 2025	4Q24 results

Key assumptions

	2023	2024E	2025E	2026E
	(%)	(%)	(%)	(%)
Real revenue growth	29.3	5.3	9.0	9.2
Adjusted EBITDA margin	(0.3)	0.9	2.5	2.8

Sources: Migros Ticaret; TEB Investment/BNP Paribas estimates

Earnings sensitivity

	TP increase (%)
100bps higher revenue growth assumptions for the valuation horizon	5
25bps higher EBITDA margin assumptions for the valuation horizon	5
100bps higher terminal growth assumptions for the valuation horizon	7

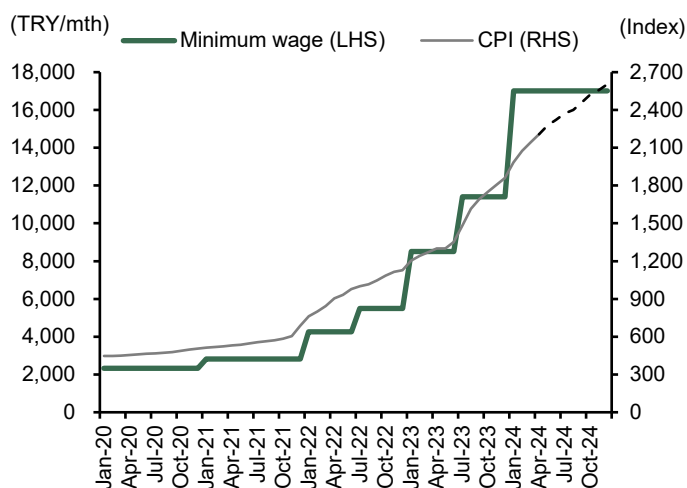
Sources: Migros Ticaret; TEB Investment/BNP Paribas estimates

- Inflation and store expansion are the two pillars of growth for MGROS.
- We adjust our terminal growth rate with our long term sustainable RONIC of MGROS.

The dilemma of the minimum wage

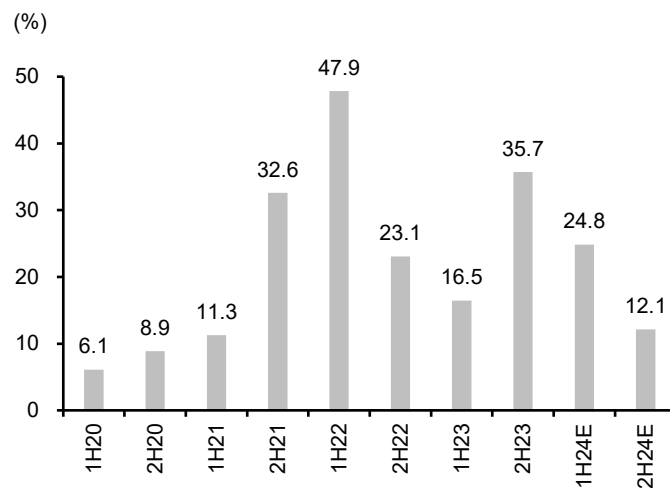
In contrast to the last two years trend, there is unlikely to be a second hike in minimum wages in July 2024, after the 50% increase in January 2024. In our view, this could result in a steady decline in purchasing power, putting our 4Q24 revenue growth at risk. On the flip side, we also expect inflation to slowdown. Our CPI expectation for 2H24E is 12%, the lowest increase since 1H22, and nearly half of 1H24E inflation. This suggests that the impact of declining purchasing power is unlikely to be as drastic as 2023. Note that for MGROS, personnel costs are around 10% of its ex-depreciation cost base. Without a second increase in minimum wage, we think margin control could be easier.

Exhibit 1: Minimum wage vs CPI inflation



Sources: Ministry of Labour and Social Securities, Turkstat, TEB Investment / BNP Paribas estimates

Exhibit 2: Expect CPI inflation to decline in 2H24



Sources: Turkstat, TEB Investment / BNP Paribas estimates

We project real revenue growth of 5% y-y in 2024 vs a real growth of 29% y-y in 2023, due to contraction in real revenue per sqm vs a growth of 20% a year ago. We expect the real decline to be visible in 2H24, especially in 4Q24. However, we expect adjusted EBITDA margin (adjusted for term sales and purchases) to improve, to around 0.9% in 2024E vs -0.3% in 2023, supported by lower personnel cost pressures and declining CPI.

MGROS continues its price investments, and the current price difference vs discounters has fallen to below 10%, from over 20% a couple of years ago. For most basic products, MGROS' prices match the prices of discounters, implying that the impact of downtrading would be limited, even following a sharp decline in purchasing power. We also note that around 15% of MGROS' revenue (excluding tobacco and alcohol) comes from online operations, where peers have limited exposure. This should help reduce some of the proximity disadvantages of the company.

While we do not expect a mid-year minimum wage adjustment, all things being equal, a 10% hike could have a 1% impact on real growth and reduce our 2024 margin expectations by around 50bps. That said, a minimum wage hike is likely to push CPI higher, resulting in a nominal revenue growth in 2024.

Inflation accounting misunderstood

As stated in our [strategy note](#), dated 26 February 2024, inflation accounting would boost food retailers' bottom line, thanks to their asset light business model. Use of external financing, through negative net working capital, and their large scale helps in net monetary liability, despite their high net cash position.

Thanks to this positive impact, MGROS posted an IA net income of TRY9b in 2023, well above its unadjusted net income of TRY6b. However, despite the high net income and strong cash generation, MGROS reported weak EBITDA margin of only 1.8% in 2023, nearly 500bps lower than the 6.7% EBITDA margin, excluding IA. This impact is mainly due to inventory restatement, which impacted COGS, but was offset below the EBITDA level. However, it still led to a weak market reaction.

In our view, during periods of high inflation, investors should focus on cash generation and net income, as operational profitability is impacted by non-cash inventory adjustments and do not show the full picture. In the last three months, MGROS has underperformed the market by 10%. We believe, in the coming quarter, as the rate of inflation declines, strong cash generation will prevail, resulting in limited margin erosion. We expect this to be appreciated by the market.

1Q24 earnings estimates

Quarterly inflation in 1Q24 was higher than 4Q23, given the Jan-24 hike in minimum wages and excise tax adjustment in gas prices towards the end of 2023. Processed food inflation was up 13% q-q in 1Q24. This, coupled with a higher purchasing power, should result in strong topline growth. We expect IA revenue to reach TRY54b in 1Q24. EBITDA is likely to be under pressure, given the sharp increase in minimum wages (100% y-y and 50% q-q). We project IA EBITDA of TRY764m, with an EBITDA margin of c1.4%. Adjusted for term sales and rent payment, we expect EBITDA to be negative. However, we forecast 1Q24 IA net income of TRY2.3b, on the back of strong monetary gains.

Changes to our earnings estimates

Following the company's announcement of its 2023 IAS 29 financials, we update our financial statement. All our estimates are in terms of purchasing power of TRY at their respective year-ends. Meanwhile, actual figures shown in 2023 prices are for better comparison with the publicly available financial statements.

Note that our unadjusted numbers are not comparable with our previous estimates, and, therefore, we are not showing the comparison.

Exhibit 3: Our new IAS 29 adjusted estimates

(TRY m)	New		
	2024E	2025E	2026E
Revenue	267,678	367,602	481,659
EBITDA	8,141	16,658	23,295
Net income	11,761	14,152	19,056

Sources: TEB Investment/ BNP Paribas estimates

Valuation

We use a DCF-based valuation to derive our TP of TRY671.6 for MGROS. We retain our 25% risk-free rate for 2024-25, which declines to 18% (unchanged) thereafter. This leads to a WACC range of 22.0-29.9% (unchanged). Our terminal growth rate stands at 9.0% (unchanged). Note that our DCF valuation runs on our unadjusted estimates, as inflation accounting is a temporary measure and will be discontinued once the cumulative CPI inflation declines below 100%. On our inflation adjusted estimates, MGROS trades at 7.2x 2024E P/E and 22.8x 2024E adjusted EV/EBITDA.

Exhibit 4: DCF Valuation

TRY m	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue	238,706	335,488	442,355	564,884	702,119	869,052	1,072,181	1,314,904	1,607,558	1,959,868
Growth (%)	63.7	40.5	31.9	27.7	24.3	23.8	23.4	22.6	22.3	21.9
EBIT	15,177	22,460	29,365	34,983	42,394	52,024	63,812	77,937	87,032	106,012
EBIT margin (%)	6.4	6.7	6.6	6.2	6.0	6.0	6.0	5.9	5.4	5.4
EBITDA	17,827	26,168	34,504	41,801	51,255	63,441	78,269	95,988	109,314	133,271
EBITDA margin (%)	7.5	7.8	7.8	7.4	7.3	7.3	7.3	7.3	6.8	6.8
Adjusted EBITDA	12,480	19,163	25,665	30,435	37,205	46,051	56,815	69,677	76,873	93,721
Adj. EBITDA margin (%)	4.9	5.0	5.0	5.1	5.4	5.6	5.9	6.1	5.9	6.2
Taxes	3,794	5,615	7,341	8,746	10,599	13,006	15,953	19,484	21,758	26,503
Depreciation	2,649	3,708	5,138	6,819	8,861	11,417	14,457	18,051	22,282	27,259
Change in NWC	(6,998)	(5,839)	(9,084)	(10,188)	(17,553)	(21,726)	(26,805)	(32,873)	(40,189)	(48,997)
Capital expenditure	8,832	11,742	15,482	19,771	24,574	30,417	37,526	46,022	56,265	68,595
Rent	3,184	4,423	5,817	7,415	9,172	11,290	13,838	16,889	20,520	24,838
FCF	3,668	3,223	6,108	4,691	10,413	13,064	16,302	20,154	18,520	22,781
Discounted FCFs	3,977	2,800	4,253	2,618	4,657	4,682	4,682	4,639	3,416	3,367
PV of FCFE	39,091									
Terminal growth rate (%)	9									
Terminal value	471,372									
PV of terminal value	69,678									
Net debt/(cash) (ex-lease liabilities (2023))	(10,798)									
Equity value	119,568									
Target price (TRY)	671.60									
Current price (TRY)	470.00									
Upside potential (%)	42.9									

Sources: Migros Ticaret, TEB Investment/BNP Paribas estimates

Financial statements

Migros Ticaret

Profit and Loss (TRY m) Year Ending Dec	2022A	2023A	2024E	2025E	2026E
Revenue	140,480	181,674	267,678	367,602	481,659
Cost of goods sold	(114,210)	(147,671)	(215,151)	(291,393)	(380,335)
Gross profit	26,270	34,003	52,526	76,210	101,324
Other operating income	0	0	0	0	0
Operating costs	(22,509)	(30,782)	(44,385)	(59,552)	(78,029)
Operating EBITDA	3,761	3,221	8,141	16,658	23,295
Depreciation	(4,745)	(6,201)	(9,392)	(13,351)	(17,484)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	(985)	(2,980)	(1,251)	3,307	5,811
Net financing costs	14,256	17,050	22,019	22,481	28,318
Associates	0	0	0	0	0
Recurring non operating income	(3,838)	(3,630)	(5,283)	(7,407)	(9,315)
Non recurring items	(301)	352	418	523	627
Profit before tax	9,133	10,792	15,902	18,903	25,440
Tax	23	(1,887)	(4,022)	(4,597)	(6,198)
Profit after tax	9,156	8,905	11,881	14,306	19,242
Minority interests	(16)	(77)	(120)	(154)	(186)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	9,140	8,829	11,761	14,152	19,056
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	9,140	8,829	11,761	14,152	19,056
Per share (TRY)					
Recurring EPS *	50.48	48.76	64.96	78.16	105.25
Reported EPS	50.48	48.76	64.96	78.16	105.25
DPS	3.67	6.90	25.98	31.27	42.10
Diluted shares (used to calculate per share data)	181	181	181	181	181
Growth					
Revenue (%)	287.3	29.3	47.3	37.3	31.0
Operating EBITDA (%)	29.9	(14.4)	152.7	104.6	39.8
Operating EBIT (%)	n/m	n/m	n/m	n/m	75.7
Recurring EPS (%)	2,409.0	(3.4)	33.2	20.3	34.7
Reported EPS (%)	2,409.0	(3.4)	33.2	20.3	34.7
Operating performance					
Gross margin (%)	18.7	18.7	19.6	20.7	21.0
Operating EBITDA margin (%)	2.7	1.8	3.0	4.5	4.8
Operating EBIT margin (%)	n/a	n/a	n/a	0.9	1.2
Net margin (%)	6.5	4.9	4.4	3.8	4.0
Effective tax rate (%)	(0.3)	17.5	25.3	24.3	24.4
Dividend payout on recurring profit (%)	7.3	14.2	40.0	40.0	40.0
Interest cover (x)	0.3	0.4	0.3	0.2	0.1
Inventory days	37.1	50.0	51.8	58.8	60.8
Debtor days	1.3	1.2	1.1	1.0	0.7
Creditor days	70.7	89.1	84.4	91.4	93.3
Operating ROIC (%)	15.6	83.9	n/a	26.3	25.4
ROIC (%)	n/a	n/a	n/a	n/a	n/a
ROE (%)	65.4	27.8	24.3	19.4	19.0
ROA (%)	n/a	n/a	n/a	n/a	n/a

*Pre exceptional pre-goodwill and fully diluted

Sources: Migros Ticaret; TEB Investment/BNP Paribas estimates

Financial statements

Migros Ticaret

Cash Flow (TRY m) Year Ending Dec	2022A	2023A	2024E	2025E	2026E
Recurring net profit	9,140	8,829	11,761	14,152	19,056
Depreciation	4,745	6,201	9,392	13,351	17,484
Associates & minorities	-	-	-	-	-
Other non-cash items	-	-	-	-	-
Change in working capital	0	(233)	6,628	6,720	9,189
Cash flow from operations	13,885	14,797	27,781	34,223	45,729
Capex - maintenance	-	-	-	-	-
Capex - new investment	(4,156)	(6,096)	(9,883)	(12,866)	(16,858)
Net acquisitions & disposals	0	0	0	0	0
Other investments (net)	-	-	-	-	-
Cash flow from Investing	(4,156)	(6,096)	(9,883)	(12,866)	(16,858)
Dividends paid	0	(664)	(1,250)	(4,704)	(5,661)
Equity finance	0	0	0	0	0
Debt finance	0	2,815	5,229	5,527	5,759
Other financing cash flows	-	-	-	-	-
Cash flow from Financing	0	2,151	3,979	822	98
Non recurring cash flows	-	-	-	-	-
Other adjustments	3,563	(11,326)	(10,938)	(11,490)	(14,948)
Net other adjustments	3,563	(11,326)	(10,938)	(11,490)	(14,948)
Movement in cash	13,292	(474)	10,940	10,689	14,020
Free cash flow to firm (FCFF)	9,728.91	8,701.32	17,898.05	21,356.54	28,870.78
Free cash flow to equity (FCFE)	3,562.60	(10,662.66)	(9,687.90)	(6,785.45)	(9,287.63)

Per share (TRY)					
FCFF per share	53.73	48.06	98.85	117.96	159.46
FCFE per share	19.68	(58.89)	(53.51)	(37.48)	(51.30)
Recurring cash flow per share	76.69	83.01	116.83	151.91	201.82

Balance Sheet (TRY m) Year Ending Dec	2022A	2023A	2024E	2025E	2026E
Tangible fixed assets (gross)	34,491	39,716	65,308	94,939	130,499
Less: Accumulated depreciation	(17,750)	(19,422)	(30,466)	(43,205)	(58,489)
Tangible fixed assets (Net)	16,741	20,295	34,842	51,734	72,010
Intangible fixed assets (Net)	14,459	14,772	20,678	26,054	31,258
Long-term financial assets	993	1,156	1,618	2,039	2,446
Invest. in associates & subsidiaries	0	0	0	0	0
Cash & equivalents	13,292	12,817	23,757	34,446	48,466
A/C receivable	905	2,497	3,321	2,876	3,108
Inventories	18,541	21,929	39,151	54,684	71,980
Other current assets	887	632	863	863	863
Current assets	33,625	37,876	67,091	92,869	124,417
Other assets	15,802	18,031	25,076	31,129	38,736
Total assets	81,620	92,129	149,306	203,826	268,867
Common equity	27,435	36,024	60,758	85,354	115,181
Minorities etc	73	230	442	710	1,039
Total Shareholders' equity	27,507	36,254	61,200	86,064	116,220
Long term debt	8,259	7,291	11,248	15,674	20,263
Other long-term liabilities	2,996	3,689	4,419	5,053	5,602
Long-term liabilities	11,255	10,980	15,666	20,727	25,865
A/C payable	34,668	37,390	62,063	83,872	110,589
Short term debt	4,025	2,979	4,252	5,352	6,522
Other current liabilities	4,164	4,526	6,124	7,810	9,672
Current liabilities	42,858	44,896	72,439	97,034	126,782
Total liabilities and shareholders' equity	81,620	92,129	149,306	203,826	268,867
Net working capital	(22,525)	(19,837)	(29,105)	(38,611)	(50,831)
Invested capital	25,471	34,417	53,109	72,346	93,619

* includes convertibles and preferred stock which is being treated as debt

Per share (TRY)					
Book value per share	151.53	198.97	335.58	471.43	636.17
Tangible book value per share	71.67	117.38	221.37	327.52	463.53
Financial strength					
Net debt/Equity (%)	(3.7)	(7.0)	(13.5)	(15.6)	(18.7)
Net debt/total assets (%)	Neg.	Neg.	Neg.	Neg.	Neg.
Current ratio (x)	0.8	0.8	0.9	1.0	1.0
CF interest cover (x)	0.5	1.3	1.0	0.7	0.7

Valuation	2022A	2023A	2024E	2025E	2026E
Recurring P/E (x) *	9.3	9.6	7.2	6.0	4.5
Recurring P/E @ target price (x) *	13.3	13.8	10.3	8.6	6.4
Reported P/E (x)	9.3	9.6	7.2	6.0	4.5
Dividend yield (%)	0.8	1.5	5.5	6.7	9.0
P/CF (x)	6.1	5.7	4.0	3.1	2.3
P/FCF (x)	23.9	n/a	n/a	n/a	n/a
Price/book (x)	3.1	2.4	1.4	1.0	0.7
Price/tangible book (x)	6.6	4.0	2.1	1.4	1.0
EV/EBITDA (x) **	22.4	25.7	9.5	4.3	2.8
EV/EBITDA @ target price (x) **	32.1	37.0	14.0	6.5	4.3
EV/invested capital (x)	3.3	2.4	1.5	1.0	0.7

* Pre exceptional & pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non operating income

Sources: Migros Ticaret; TEB Investment/BNP Paribas estimates

Disclaimers and Disclosures

APPENDIX

DISCLAIMERS AND DISCLOSURES APPLICABLE TO NON-US BROKER-DEALER(S): TEB Investment

ANALYST(S) CERTIFICATION

Evren Gezer, TEB Investment, +90 216 636 4533, evren.gezer@tebyatirim.com.tr

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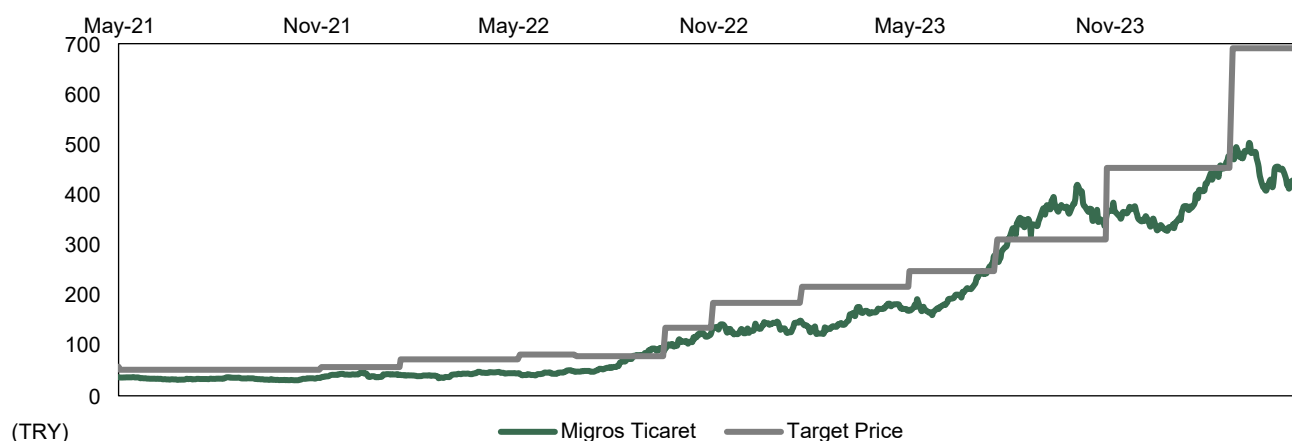
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History of change in investment rating and/or target price

Migros Ticaret (MGROS TI)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
06-May-21	Buy	51.75	01-Jul-22	Buy	78.77	04-May-23	Buy	247.88
08-Nov-21	Buy	57.10	21-Sep-22	Buy	135.27	24-Jul-23	Hold	310.80
20-Jan-22	Buy	72.43	04-Nov-22	Buy	184.75	02-Nov-23	Hold	453.03
10-May-22	Buy	82.03	25-Jan-23	Buy	216.71	26-Feb-24	Buy	690.89

Evren Gezer started covering this stock from 1 April 2021
Price and TP are in local currency
Sources: FactSet; BNP Paribas

Company	Ticker	Price	Rating	Valuation & Risks
Migros Ticaret	MGROS TI	TRY 470.00	Buy	DCF based TP. Downside risks to our call are 1) A new retail law that may curb growth. 2) faster than expected decline in inflation.3) an unexpected mid-year minimum wage hike

Sources: FactSet, BNP Paribas

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