

SOK MARKETLER

OVERWEIGHT

Bright growth outlook at bargain price

Oct 24, 2023

🌀 We are initiating our coverage for Sok with an Overweight rating and set our 12M target price at TL108.60/sh (+TL1.7 expected DPS). Sok has successfully navigated a highly competitive soft discount market by growing its business through a combination of new store openings and LFL growth. In addition, Sok generates significant cash flow and net income in our projections, which could lead to higher dividend payment in the future. We expect Sok's growth trajectory to remain unimpeded for at least 4-5 years, driven by new store expansion. Yet, we believe that the market has not fully priced in the majority of these positives considering its 6.1x 2024E P/E multiple, which represents a ~50% discount to int'l peers and ~60% discount to domestic peers P/E.

🌀 **Concrete guidance for 2023...** Sok's management guides 80% y/y revenue growth (±5%), 7.5%-8% EBITDA margin, TL2.5bn CAPEX and 750 new store rollouts in 2023. Excluding 1H23 financials, Sok targets to generate ~TL60bn revenue (~70% y/y revenue growth) with ~8% EBITDA margin. We think that the store opening target may not be achievable for this year, as the company had to close ~250 net stores in 1Q, due to earthquake. Thus, we foresee Sok to open 544 new stores in 2023, while we foresee 350 new store rollouts in 2H23. Going forward, we expect a 37% CAGR in revenues during our valuation period for Sok with an average EBITDA margin of 7.4%.

🌀 **Solid business model...** As a soft discounter, Sok operates with 10,475 stores (at 1H23-end) throughout Turkey. Sok's LFL revenue growth was 80.2% in 1H23 (3.4% traffic & 74.4% basket size growth). In July, Sok started a loyalty programme, where we will highly likely to see an improving traffic growth, going forward. Apart from its solid operational performance, Sok Marketler enjoys having a notable net cash position of TL 2.4bn (~6.5% of Mcap) and negative working capital cycle.

🌀 **Differentiating itself from other food retailers...** As a soft discounter, Sok provides ~1,800 SKUs to the consumers, which is higher than a traditional hard discounter of ~800-100 SKUs, and lower than a supermarket of ~3,000-4,000 SKUs, which enables Sok to attract the customers from those rivals. The share of low-margin private label products is low between 30-35%, compared to other discounters. Since its IPO, Sok achieved a revenue CAGR of 42% compared with 34% for Migros and 36% for BIM. We believe that Sok will keep its growth momentum going forward without sacrificing EBITDA margin.

🌀 **Risks...** i) Failure to maintain a competitive edge in the food retail market, ii) a decline in consumer spending are the main risks for Sok.

Price Data

Current Price (TL, 23-Oct-23)	62.25
Current Mcap (TLmn)	36,932
12-mth Target Price (TL/share)	108.60
12-mth Target Mcap (TLmn)	64,431
12-mth Return Potential	74%
Dividend yield	3%

Financials (TL mn)	2021	2022	2023E	2024E
Revenues	28,412	59,292	105,417	182,755
% ch y/y	33	109	78	73
EBITDA	2,622	4,772	7,601	13,450
% ch y/y	25	82	59	77
Net Income	324	2,380	3,401	6,062
% ch y/y	19	634	43	78

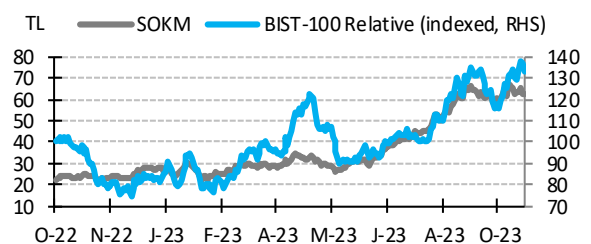
Margins (%)	2021	2022	2023E	2024E
EBITDA Margin	9.2	8.0	7.2	7.4
Net Margin	1.1	4.0	3.2	3.3
Gross Dividend Yield	0.0	0.8	2.8	4.9

Ratios	2021	2022	2023E	2024E
P/E (TL, x)	23.5	4.2	10.9	6.1
EV/EBITDA (TL, x)	3.5	2.8	4.9	2.6
Net Debt/EBITDA (TL, x)	0.6	0.7	0.0	-0.2
ROE (TL,%)	64.8	83.1	55.4	54.2

Stock Data

Ticker	SOKM.IS	SOKM.TI
Sector		Food Retail
# of Shares (mn)		593
3M Av. Trd. Vol. (mn)		US\$22.6

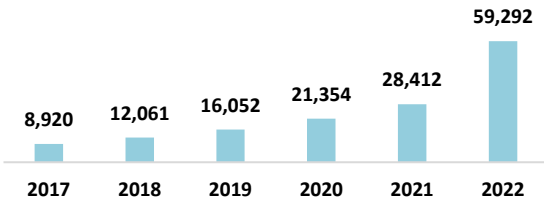
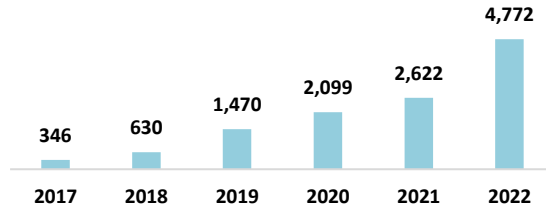
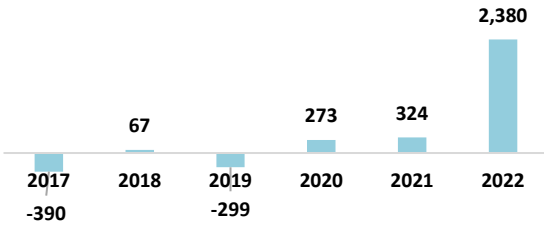
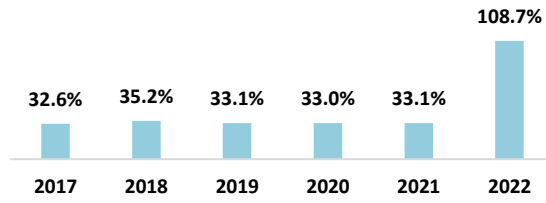
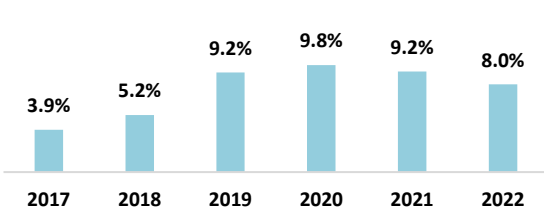
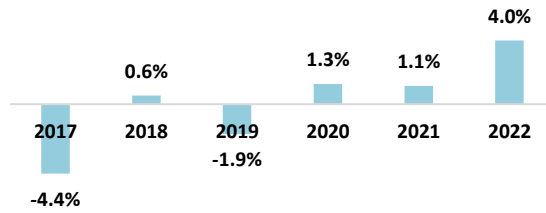
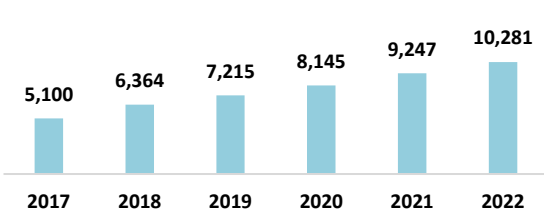
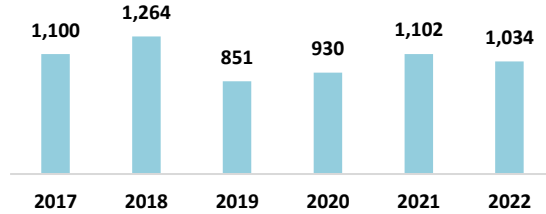
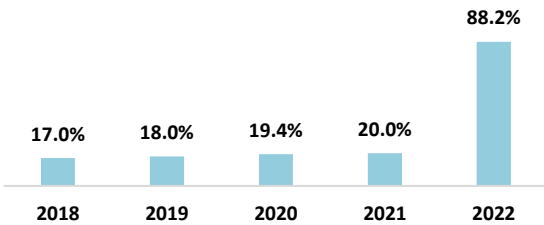
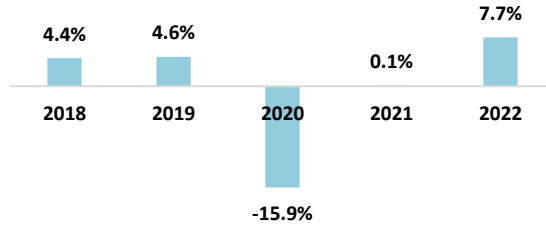
Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	3%	50%	125%	102%
BIST-100 Relative	7%	29%	60%	41%

Major Shareholders

Turkish Retail Investments	24.3%
Gozde Private Equity <GOZDE.TI>	23.7%
EBRD	5.7%
Other	46.4%

Exhibit: Sok in a nutshell
Revenues (TLmn)

EBITDA (TLmn)

Net Income (TLmn)

Revenue Growth

EBITDA Margin

Net Margin

of stores (Period End)

Store Rollouts

LFL Revenue Growth

LFL Traffic Growth


Valuation

We reached TL108.60/sh target price for Sok. We incorporated risk-free rate of 20%, equity risk premium of 5.5% and a beta of 0.76x. We calculated a WACC of ~24.2% in our valuation period.

Exhibit: Sok - DCF Model

TL mn	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	105,417	182,755	273,642	369,972	467,517	550,963	644,863	753,867
Adj. EBITDA	5,299	9,376	14,163	19,222	24,290	28,542	33,290	38,768
Tax	-348	-1,362	-2,023	-2,636	-3,182	-3,551	-4,025	-4,645
CAPEX	-2,513	-4,491	-6,916	-9,424	-11,859	-13,791	-15,927	-18,372
Chg in NWC	-775	-848	-1,464	-1,563	-1,592	-1,374	-1,540	-1,780
FCF	3,213	4,371	6,688	8,724	10,841	12,575	14,878	17,532
<i>Revenue Growth, y/y</i>	77.8%	73.4%	49.7%	35.2%	26.4%	17.8%	17.0%	16.9%
<i>Adj. EBITDA Growth, y/y</i>	57.8%	76.9%	51.1%	35.7%	26.4%	17.5%	16.6%	16.5%
<i>Adj. EBITDA Margin</i>	5.0%	5.1%	5.2%	5.2%	5.2%	5.2%	5.2%	5.1%
<i>FCF Margin</i>	3.0%	2.4%	2.4%	2.4%	2.3%	2.3%	2.3%	2.3%
WACC	26.1%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%

Terminal growth rate	7.0%
Enterprise Value	48,276
Target Mcap	51,744
12M TP	108.60
Upside	74%

Source: Company Data, Tera Yatirim

Exhibit: Sok - Financials

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	12,061	16,052	21,354	28,412	59,292	105,417	182,755	273,642
# of stores	6,364	7,215	8,145	9,247	10,281	10,825	11,625	12,375
Store rollouts	1,264	851	930	1,102	1,034	544	800	750
COGS	-9,127	-12,311	-16,318	-21,768	-45,195	-80,835	-139,870	-209,772
Gross Profit	2,934	3,740	5,036	6,644	14,097	24,582	42,886	63,870
EBITDA (Incl. TFRS-16)	630	1,470	2,099	2,622	4,772	7,601	13,450	20,318
PBT	-248	-244	294	301	1,945	3,758	7,579	11,873
Tax	316	-54	-22	18	435	-357	-1,516	-2,375
Net Income	67	-299	273	324	2,380	3,401	6,062	9,494
Revenue Growth	22.0%	33.1%	33.0%	33.1%	108.7%	77.8%	73.4%	49.7%
EBITDA Margin	5.2%	9.2%	9.8%	9.2%	8.0%	7.2%	7.4%	7.4%
Net Margin	0.6%	-1.9%	1.3%	1.1%	4.0%	3.2%	3.3%	3.5%

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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