



KOÇ  
UNIVERSITY



# MIGROS TICARET A.S (MGROS)

## RUNNERS

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# Macro Outlook Food Retail Market

## Turkey food retail scorecard

Winners of this era should have:	BIM	A101	Sok	Migros	Carrefoursa
Benefits from rising inflation	5	5	5	4	4
Lower share of discretionary	5	4	4	3	2
Higher share of private label	5	4	3	2	2
Better brand image for trade down	5	4	3	1	1
Gross margin expansion strategy	5	5	5	5	5
Resiliency to rising rent expenses	2	2	2	1	1
Resiliency to rising wages	2	1	1	2	1
White space growth appetite	3	4	4	2	1
Inorganic growth appetite	3	2	2	4	2
<b>Overall</b>	<b>3.9</b>	<b>3.4</b>	<b>3.2</b>	<b>2.7</b>	<b>2.1</b>

Source: HSBC

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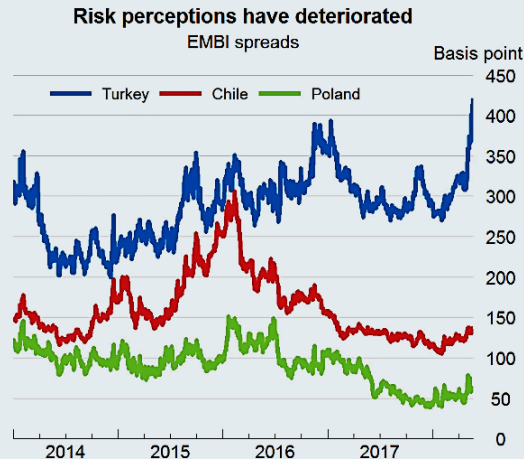
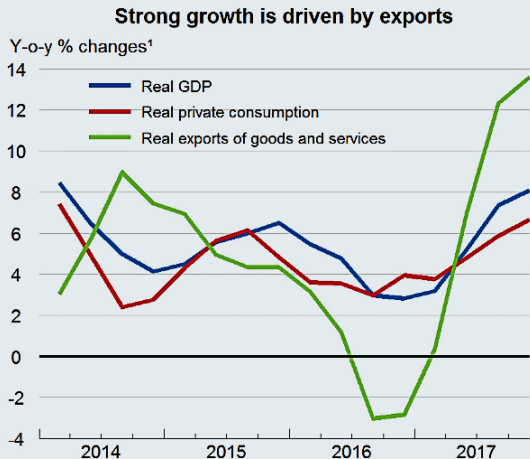
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# Macro Outlook

## GDP



- The exchange rate remains highly volatile, with the lira depreciating substantially recently despite a significant increase in the policy interest rate, and consumer price inflation is far above target. Disinflation is projected to be slow.
- Following a strong recovery in 2017 and turbulence in spring 2018, economic growth is set to slow but to stay around 5% in 2018 and 2019.
- The uncertainties surrounding the early elections in June, as well as persisting regional geopolitical tensions, create risks.

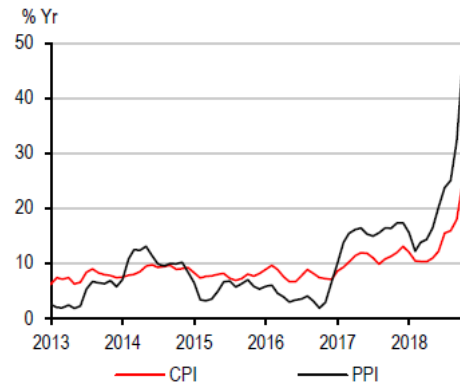
# Macro Outlook

## Inflation

### Rising food inflation supports growth of Turkish food retailers

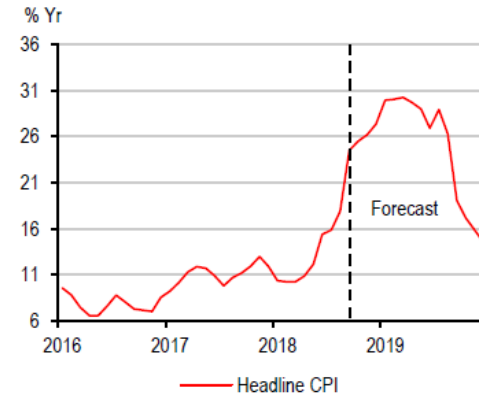
- Food inflation is a quite tricky for retailers. There are two angles to it and it depends on what direction the industry is headed in. In emerging markets and with lower level of competition, rising food inflation comes as a support for food retailers, driving higher basket growth and the top line. If competitive pressure is low, all retailers are likely to pass on prices to consumers.
- However, if modern food retail penetration is high and competition intense, retailers try to take advantage of high inflation periods to undercut competition and gain traffic to their stores.

CPI reached 24.5% in September, the highest reading in the current series



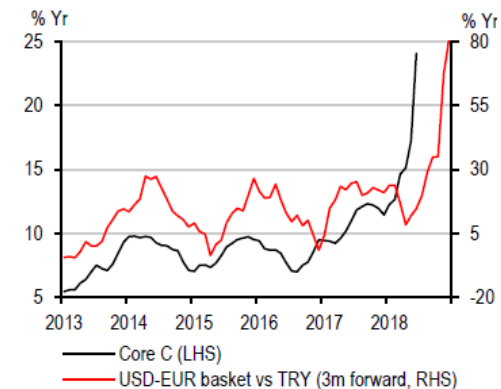
Source: Turkstat

We see inflation peaking at around 30% in Q1 next year



Source: Turkstat, HSBC forecasts

FX pass-through is clearly higher than the CBRT's 15% estimate...



Source: Turkstat, Bloomberg

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# MIGROS

## Company Overview

# MiGROS



- The pioneer of organized retailing in Turkey, Migros today offers spacious stores in a wide range of formats and locations whose vast selection of cosmetics, stationery, glass and kitchenware, electronic appliances, book, textiles, and other items along with groceries and other necessities give it the ability to satisfy the shopping needs of its customers.

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# MIGROS Company Overview

MIGROS

## Migros at a Glance

<b>Geographical Footprint</b>	<ul style="list-style-type: none"> <li>Operating in 3 countries                     <ul style="list-style-type: none"> <li>Turkey (81 cities out of 81)</li> <li>Macedonia and Kazakhstan</li> </ul> </li> </ul>	 
<b>2,011 Stores<sup>1</sup></b>	<ul style="list-style-type: none"> <li><b>1,742 MIGROS</b> (supermarkets)</li> <li><b>50 macrocenter</b> (upscale supermarkets)</li> <li><b>161 kipa</b> (Supermarkets and Hypermarkets)</li> <li><b>17 MIGROS TOPTAN</b> (wholesale and foodservice stores)</li> <li><b>41 Ramstore</b> (international stores)</li> <li><b>Migros Online</b> <ul style="list-style-type: none"> <li><b>1.7m</b> members and <b>56%</b> mobile orders</li> <li>Acquisition and re-launch of <b>Tazedirekt</b></li> </ul> </li> </ul>	 
<b>Innovation, Loyalty &amp; Customer Service</b>	<ul style="list-style-type: none"> <li><b>7.7m</b> active households <b>Money Club Card</b></li> <li>Introduced more than <b>100 innovations</b> for the retail market</li> </ul>	
<b>Sustainability and Corporate Governance</b>	<ul style="list-style-type: none"> <li>Only retail company in the "BIST Sustainability Index"</li> <li>Included Corporate Governance Index since 2015</li> <li><b>27,596</b> employees of which <b>40%</b> are women</li> <li>Best retailer of the country <b>14 years in a row<sup>2</sup></b></li> </ul>	

- Wide geographical coverage on all over the Turkey (81 cities out of 81)
- Operates 3 countries (Turkey, Macedonia, Kazakhstan)
- Wide variety of stores for different target customers (Migros, MacroCenter, Kipa, Migros Toptan, Ramstore)
- 2011 stores in total

<sup>1</sup> as of June 30, 2018  
<sup>2</sup> Capital Business magazine.

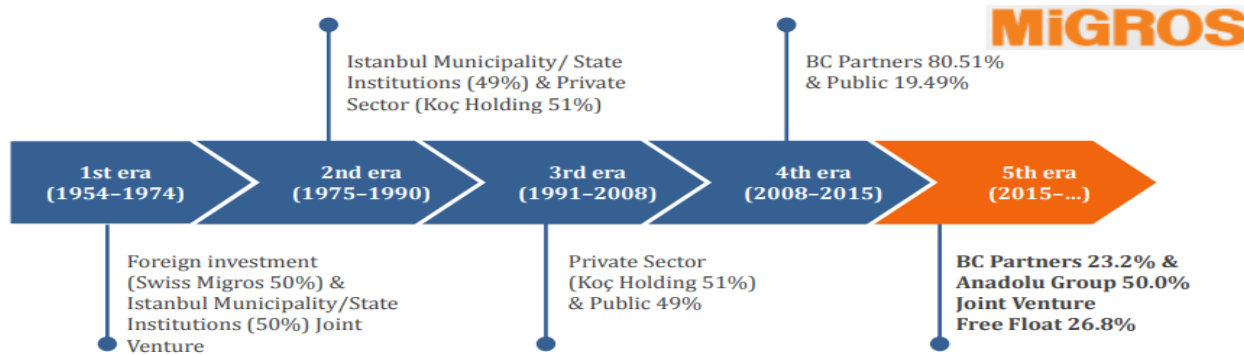
Source: <https://www.migroskurumsal.com/en/Icerik.aspx?IcerikID=220>

«Investor Presentation – 2Q 2018 Management Presentation»

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# MIGROS

## History / Shareholder Status



- Migros was established in 1954 (as a joint venture between Swiss Migros & Istanbul Municipality/State Institutions).
- Throughout its history, the company had 5 different ownership structures.
- Ownership changes did not interfere with the long established Company operating principles and management.

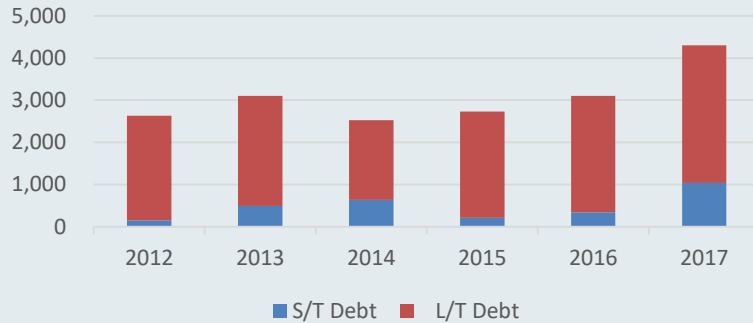
### Shareholding Structure as of June 2018



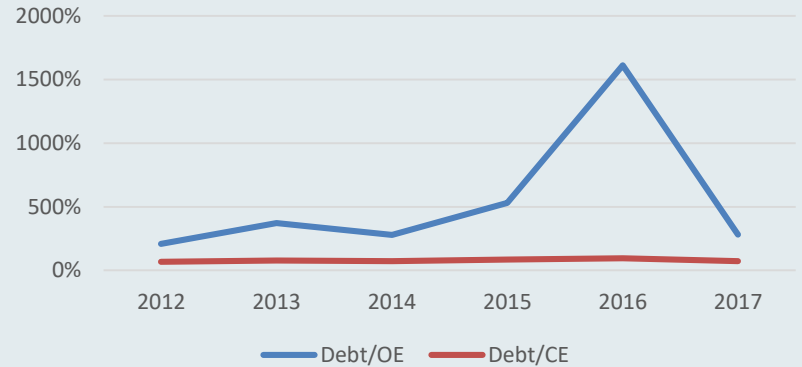
# Financial Structure

## Debt

### Debt Structure - MGROS



### Debt to Equity



- We can easily observe that L/T Debts are much more than S/T Debts which is preferable. Debt amount is nearly stable to support its operations.
- Capital structure is composed of two parameters: one is equity another is debt. Migros is supporting its financials with debt roughly three times more than equity.

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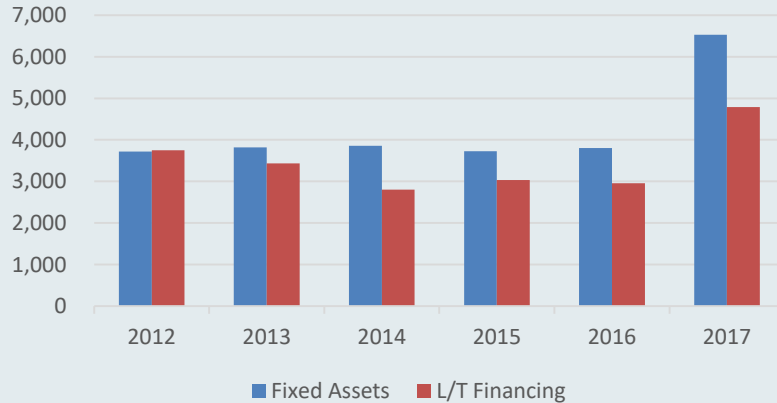
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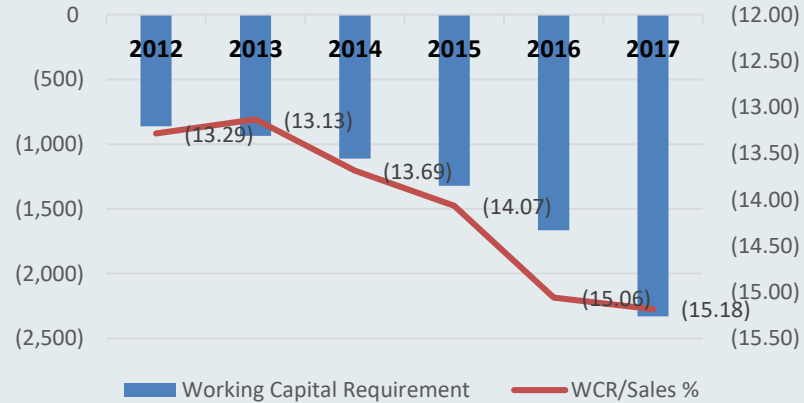
# Financial Structure Liquidity

## Fix Assets vs LTF - MGROS



- Fix Assets > Long Term Financing which is unpreferable because, the company needs to support remaining parts with short term financing. (If company's expecting that interest rate will decline then this position can be meaningful)

## WCR & WCR/Sales %



- Liquidity ratio which is  $NLF / WCR$  is not meaningful because both parameters are negative. Negative WCR often arises when a business generates cash so quickly that it can sell a product / service to the customer before it has had to pay its bill to the vendor. So, (-) WCR is reasonable for retail sector.

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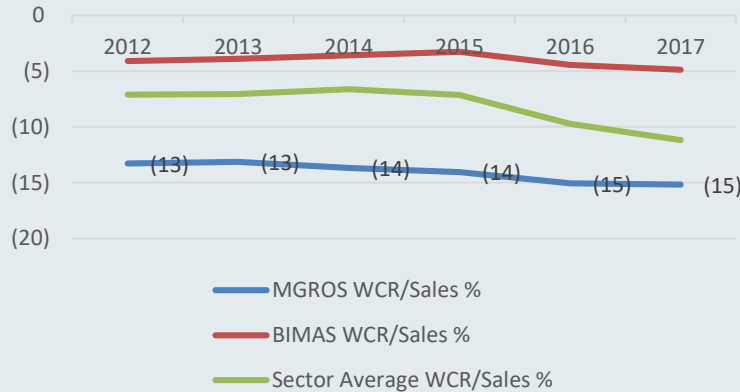
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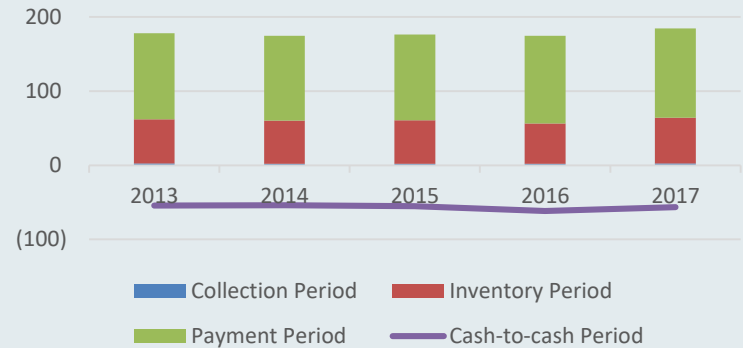
## Operational Efficiency

### Operational Efficiency



- From 2015 to 2017, Migros's operational efficiency is increasing. Negative numbers are not meaningful because of WCR increase. (WCR is negative)

### MGROS - Operational Efficiency Parameters



- From 2013 to 2017, cash to cash period is stable and negative which is good for the company.

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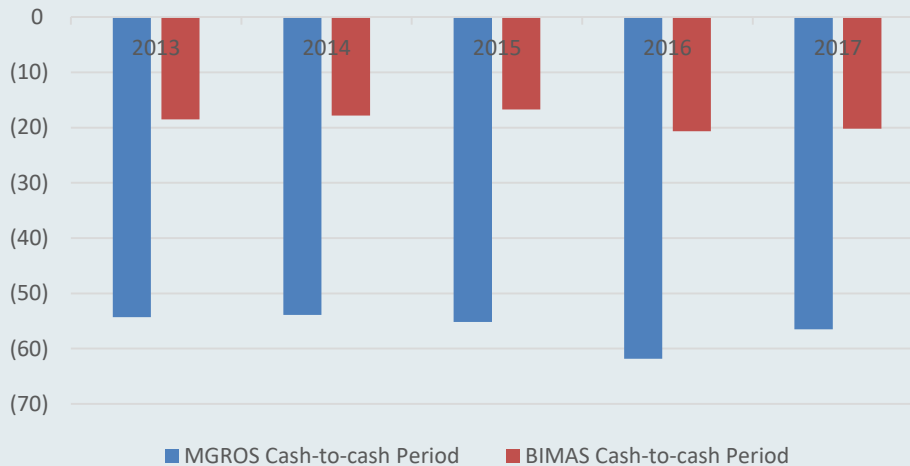
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## Operational Efficiency

### Cash to Cash Comparison



- Regular trend is available between these two rivals. Migros's cash to cash period is better than BIMAS because of shorter collection period.

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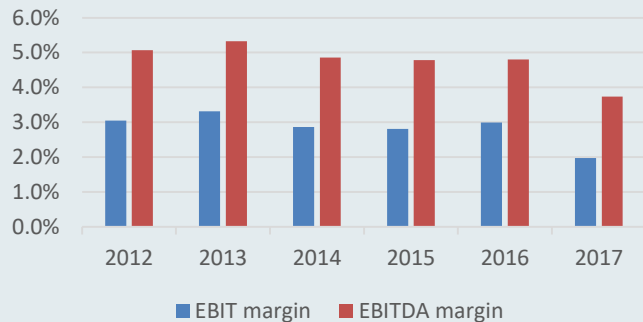
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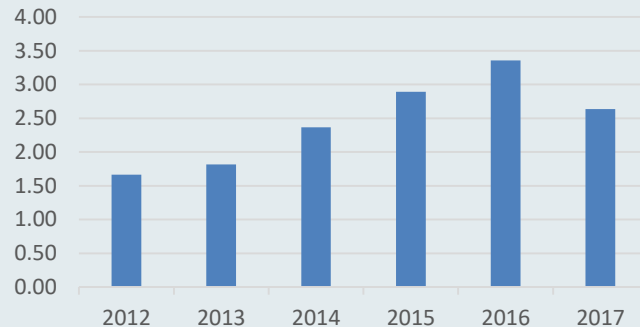
# Financial Structure

## Profitability

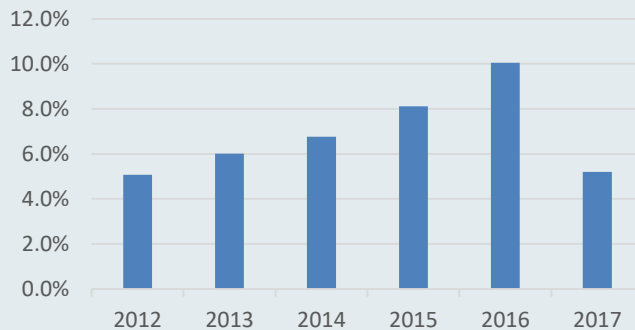
### EBIT vs EBITDA



### Capital turnover



### ROIC



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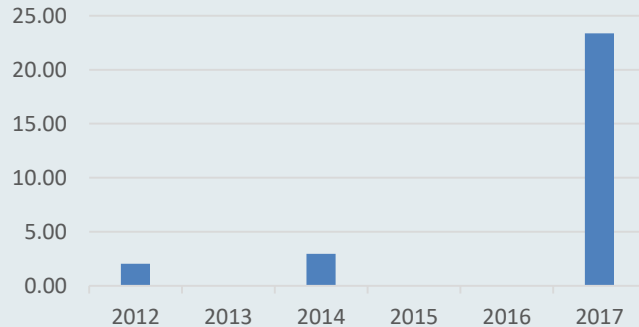
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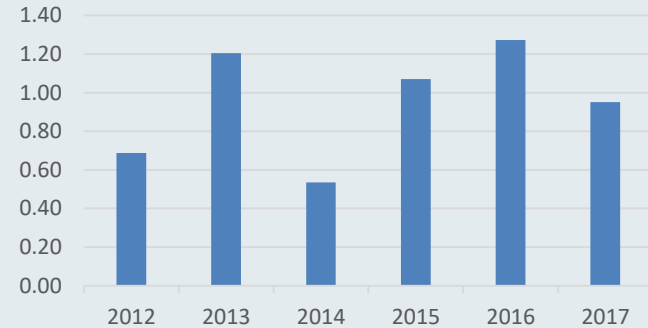
# Financial Structure

## Profitability

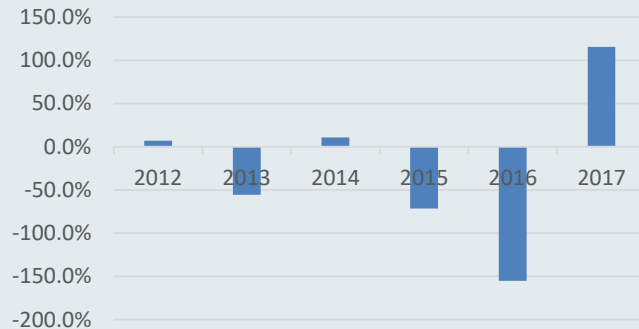
### Fin. multiplier



### Tax effect



### ROE



- 2016's ROE was so bad and shareholders are not satisfied due to low margins. But in 2017 it caught %100.

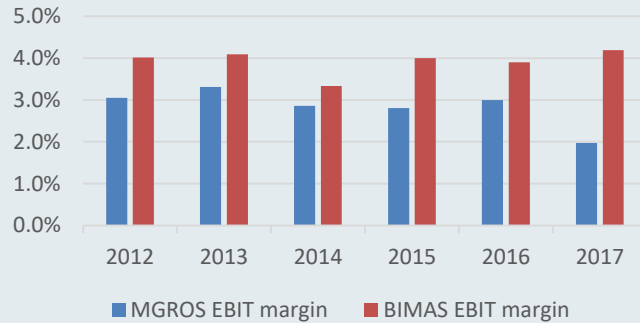
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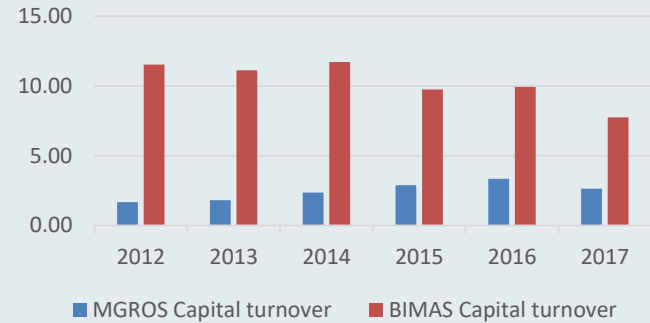
# Financial Structure

## Profitability Peer Comparison

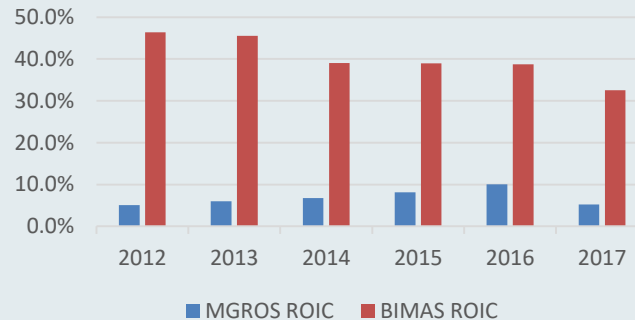
### EBIT Comparison



### Capital Turnover



### ROIC



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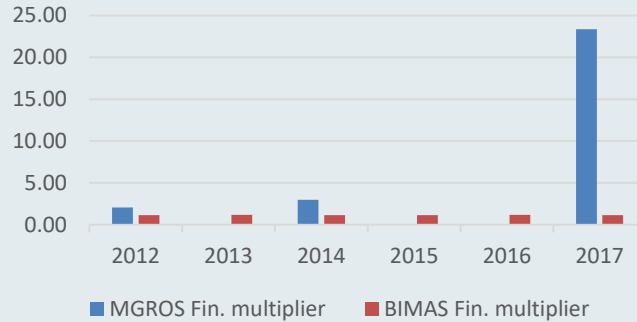
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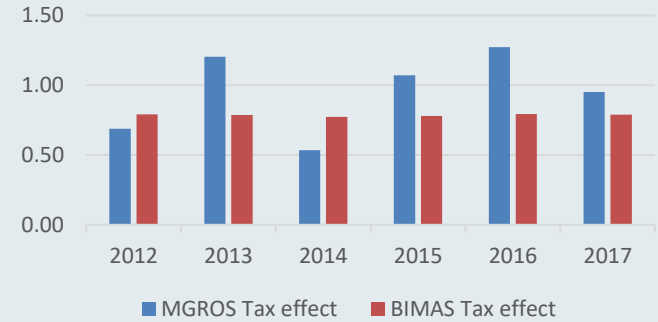
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# Financial Structure Profitability Peer Comparison

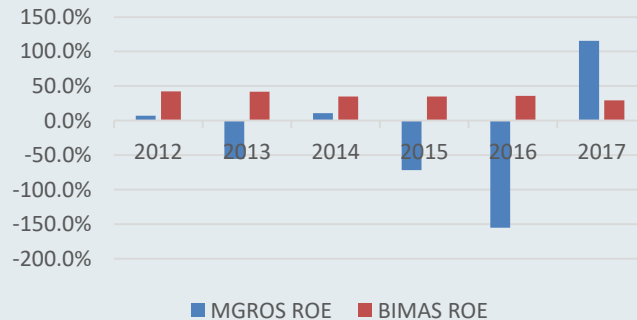
## Financial Multiplier



## Tax Effect



## ROE

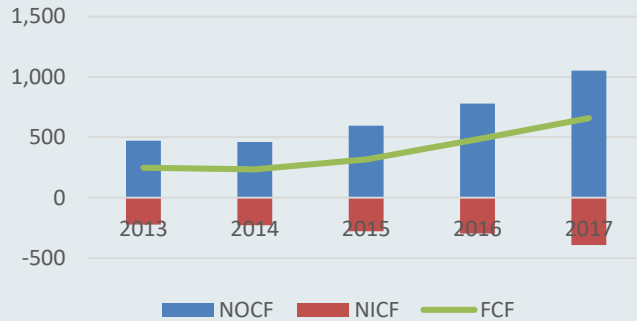


- Due to low financial leverage, BIMAS's ROE performance did not change in 2017 on the contrary of Migros. Taking too much risk could create bad result for the company in long term.

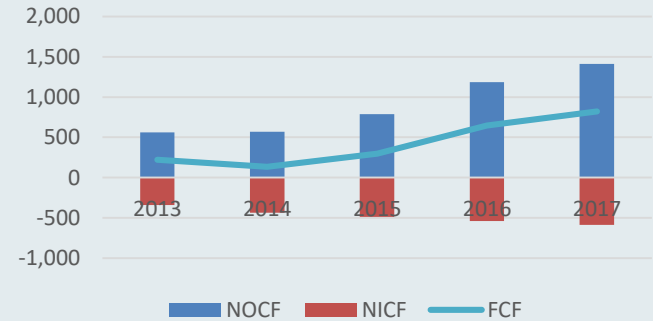
# Financial Structure

## Cash Flow Summary

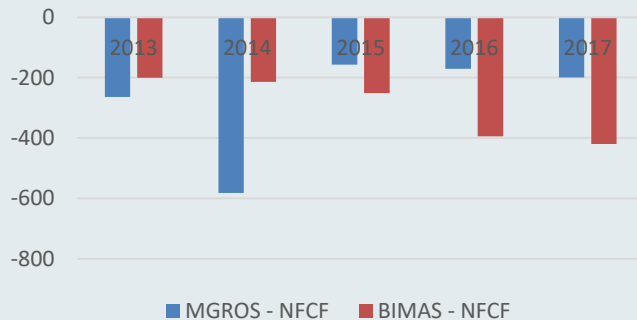
### MGROS - FCF



### BIMAS - FCF



### NFCF - MGROS vs BIMAS



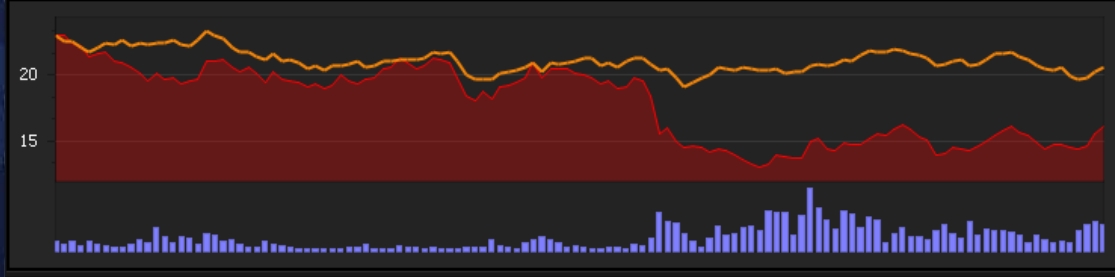
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# Stock Valuation Snapshot

**MGROS:IS** **MIGROS** **Food & Grocery Stores** **Borsa Istanbul** **Turkey**  
 Last **16.160 TRL** ▲ **0.580 +3.72 %** Friday, 2 November 2018

BIST 100 INDEX Price Chart

6m 1y 2y 3y 5y



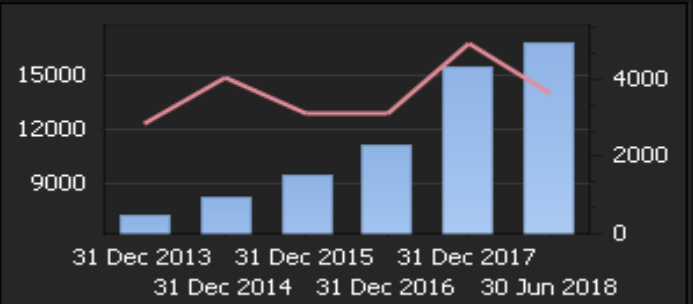
52 Week Price Range



Indicators

MCap (mn.)	2,925.84
High	16.180
Low	15.420
Volume	2,175,750.00
Value	34,765,390.61
6M Avg. Value	18,901,974.76
Number of Shares	181,054,233
3Y Avg. Dividend Yield (%)	0.00
2-Year Beta (KU100)	1.04
Share Type	Common
End of Fiscal Year	December

Net Sales - TTM & MCap (mn.)



Ratios

	2016YE	2017YE	Last	2019YE
P/E	-10.43	9.57	-3.63	9.10
EPS - TTM	-1.75	2.98	-4.68	1.78

EPS - TTM

Year	Currency	EPS	Earnings Yield (%)
2017	TRL	2.9811	10.45
2016	TRL	-1.7493	-9.59
2015	TRL	-2.1530	-11.92
2014	TRL	0.5590	2.38
2013	TRL	-2.6913	-16.26

Dividend - TTM

Year	Currency	DPS	Dividend Yield (%)
2010	TRL	1.1386	4.18
2009	TRL	14.4916	50.45
2008	TRL	0.6134	2.88
2007	TRL	0.2326	1.41
2005	TRL	0.1337	1.44

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# Stock Valuation

## DCF

(TRY m)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	18,072	21,397	24,835	28,366	31,970	35,925	40,261	44,670	49,119	53,960
Growth (%)	18	18	16	14	13	12	12	11	10	10
EBIT	686	902	1,078	1,262	1,422	1,626	1,846	2,066	2,293	2,589
EBIT margin (%)	3.8	4.2	4.3	4.4	4.4	4.5	4.6	4.6	4.7	4.8
<b>FX adj. net profit</b>	<b>234</b>	<b>332</b>	<b>407</b>	<b>538</b>	<b>616</b>	<b>736</b>	<b>874</b>	<b>1,014</b>	<b>1,164</b>	<b>1,368</b>
Adj. net margin (%)	1.3	1.6	1.6	1.9	1.9	2.0	2.2	2.3	2.4	2.5
Depreciation (+)	299	323	345	366	384	404	428	456	477	503
Chg. in NWC (-)	90	(373)	(386)	(397)	(405)	(444)	(487)	(495)	(500)	(544)
New debt issued (+)	(390)	(335)	(365)	(396)	(435)	(472)	(510)	(551)	(595)	(643)
Capital Exp. (-)	402	401	405	384	429	478	532	496	549	607
<b>FCFE</b>	<b>(350)</b>	<b>292</b>	<b>368</b>	<b>520</b>	<b>540</b>	<b>634</b>	<b>747</b>	<b>919</b>	<b>997</b>	<b>1165</b>

Risk free rate (%)	12.25
Equity risk premium (%)	5.5
Unlevered beta	0.60
Levered beta	1.09
Cost of equity (%)	18.3
PV of FCFE	2,254
PV of terminal value	2,611
Terminal growth rate (%)	5.0

- To reflect our revised EBITDA estimates, we raise our DCF-driven target price to TRY27 from TRY16,16. In our DCF model, we adopt a FCFE method and adjust net profits according to non-cash FX losses of the company. We continue to employ a cost of equity of 18.3x for 2018, derived from 12.25% risk free rate and 5.5% equity risk premium. As we expect deleveraging in the company's balance sheet long term, our levered beta estimate eases each year. Our current DCF valuation indicates a 12-month target price of TRY27, implying a lucrative 67% upside potential.

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# Stock Valuation Investment Thesis

- Migros is the main beneficiary of the on-going consolidation in Turkey's retail sector as it is the biggest national supermarket chain excluding hard discounters. The company has acquired Kipa, Uyum and Makro supermarket chains in the past 1.5 year. The company's inorganic growth strengthens the purchasing power of Migros due to increasing scale.
- Loss-making Kipa registered outstanding recovery in profitability after Migros' take over. We expect further improvement in margins once the merger process is finalized in 2018. We estimate 30bp y-y improvement in consolidated EBITDA margin for Migros. Our estimate indicates 23% y-y increase in EBITDA in 2018.

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# Stock Valuation Catalyst

## Catalysts

- High food inflation supports the company's like-for-like growth and new store openings further contribute to top-line growth.
- Possible new acquisitions, asset sales (particularly Kipa's real estates) may act as catalysts for share price in the medium term.

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## Risk to our call

- Migros had EUR600m short FX position as of 31 October 2018. Thus, the bottom-line of Migros is very sensitive to changes in EUR/TRY parity.
- Depreciation of TRY against EUR is a downside risk. Other downside risks are lower food inflation, higher minimum wage increases, lower store openings and stiffer competition.
- Separately, BC Partners announced that it plans to sell its remaining Migros shares in the short to medium term, creating an overhang risk on Migros's share price.

# Conclusion

- In our view, those FX risks are already priced by the market & overall the next two-three quarters will be a period of strong top-line growth for food retailers in Turkey, aided by high food inflation levels. We can use that in the presentation
- A slowdown in economic growth dampens overall growth prospects, but with food retail being defensive, we see minimal impact on consumption levels. A high inflation environment also helps drive higher gross margin.
- Over the years Migros has invested in private labels, aimed at keeping prices competitive with respect to discounters, which we believe lends some support to Migros' store traffic.
- Also with the Kipa merger there is also an inorganic growth potential. The merger was completed at the end of August and management expects a positive impact by the synergies to be visible next year.

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