



# GNAM Investment Competition



**KOÇ  
UNIVERSITY**

Presents Top Investment Idea



*30 October 2016*

## **Team**

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# arçelik Stock Highlights

- Arcelik's international expansion into ASEAN region and Pakistan is seen as **value-accretive**; international revenues expected to rise from **c57% to c70%** .

<b>TARGET PRICE (TRY)</b>	<b>23</b>
<b>SHARE PRICE (TRY)</b> As of 29 <sup>th</sup> October 2016	<b>20.10</b>
<b>MARKET CAP (TRY)</b>	<b>14,123</b>
<b>UPSIDE/DOWNSIDE</b>	<b>+8%</b>

- Net income in 3Q16 of TRY264m (+24% y-o-y) beat consensus estimates of TRY227m. Listed stock in BIST 100.



Chart: Google Finance



# GLOBAL SUCCESS STORY

Arçelik A.S, founded and headquartered in Istanbul, is an esteemed market player in the durable consumer goods industry in Turkey, and 130+ countries



## 1 GLOBAL PLAYER

Arçelik has 15 different production facilities in 6 countries (Turkey, Romania, Russia, China and South Africa), and is present in 130+ countries. It has production, marketing, and after-sales operations on a global scale.



## 3 R&D AND INNOVATION

It is the only Turkish company repeatedly on the top 200 PCT applicants list of WIPO. It has set world records in energy efficiency, has +2000 patent applications, and manufactures with its own technology. It recently established the 10th R&D Center at Cambridge University Science Park

## 2 MARKET LEADERSHIP

It is the third largest white goods player in Europe, and top producer of white goods in Turkey with a c50% market share. Beko is the 2nd largest white good brand in Europe. Arçelik maintains its undisputed market leadership with Arctic brand in Romania and Defy brand in South Africa

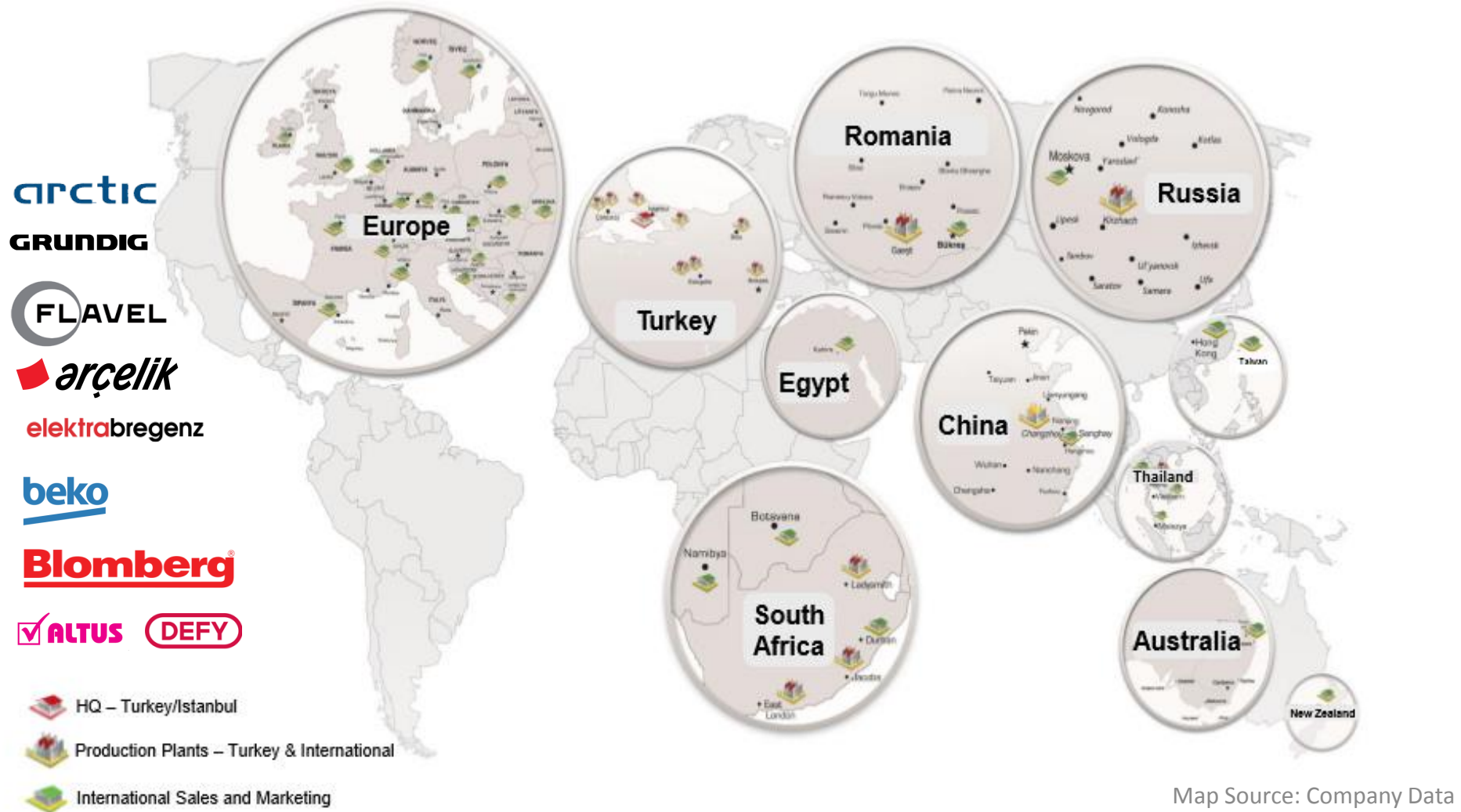


## 4 SUSTAINABILITY

Awarded the highest “AAA” rating on the Morgan Stanley Capital International (MSCI) Global Sustainable Index Series, as well as part of the 29 companies on the Borsa Istanbul (BIST) Sustainability Index & Carbon Disclosure Project (CDP). It recently made a commitment to Responsible Corporate Engagement in Climate Policy initiated under the “Road to Paris Project” by CDP for UNFCCC COP21.



# Global Brand Positioning

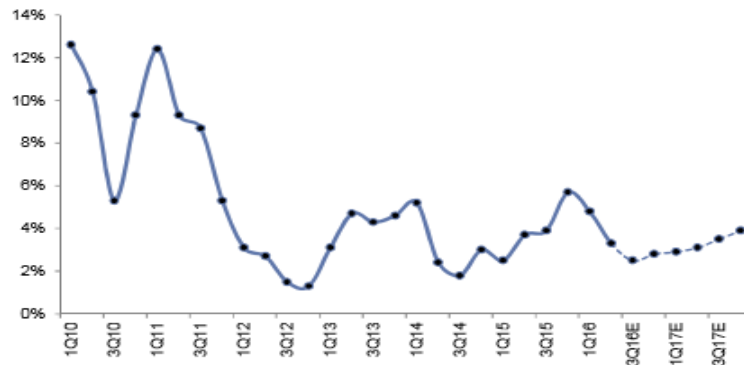


## Where is Turkey heading?

- Slowdown in GDP growth anticipated for the years 2017-2018 due to supply-side constraints, climax of political uncertainty following failed coup attempt and weakening security, and depreciating Turkish Lira, do not paint a fertile economic climate for domestic companies
- Companies with a growing international exposure are likely to perform better in the present scenario
- Moody's has downgraded Turkey's issuer and bond ratings to '**Ba1**', thus one notch below investment grade. However, BIST has emerged from the downgrade, relatively unscathed.

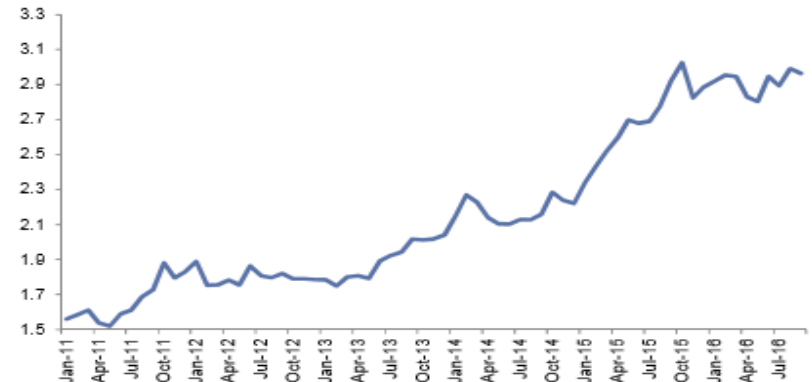
**Exhibit 1: GDP has been slowing; our economists expect below 4% growth till end-2017**

Turkey GDP (% yoy)



Source: Turkstat, Goldman Sachs Global Investment Research

**Exhibit 3: FX has also been volatile with USD/TRY +4% yoy in 3Q16 despite high base USD/TRY**

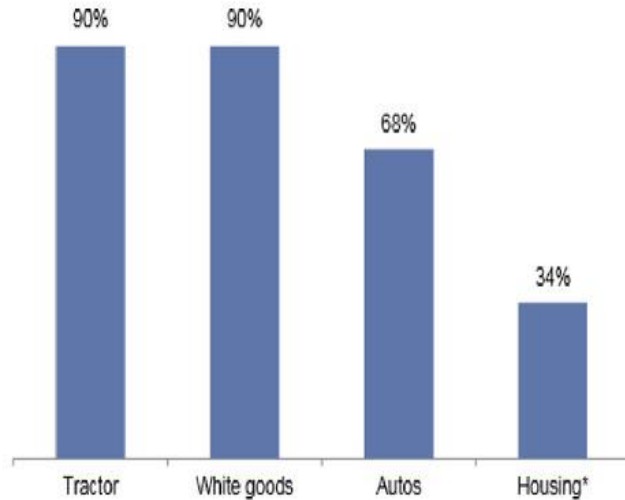


Source: Datastream



# The Story of Consumer Durables in Turkey

**Exhibit 7: Most consumer cyclicals categories rely heavily on availability and ease of credit**  
Credit/installment sales as % of total sales

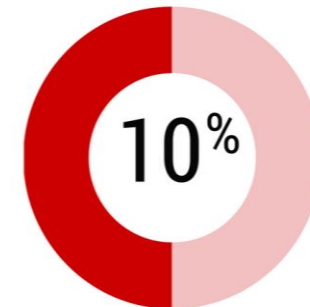


Source: Company data, \*Mortgage sales

Government incentives to increase consumption by easing borrowing conditions are expected to drive c6% growth in the domestic market



Rise in commodity prices relevant to producers, in particular steel prices, are likely to impact short term margins for white goods producer



Anticipated Turkish White Goods Exports (y-o-y)



# **arçelik** 2016 9-Month Performance

## TURKISH MARKET CONDITIONS

Growth in MDA markets by 4% and AC sell-in by 9% and decline in TV market by 10% during the 9 month period

## ARCELIK A.S. PERFORMANCE

Above-average market growth in all major product categories (MDAs, TC, A/Cs)



## INTERNATIONAL MARKET CONDITIONS



Cumulative growth in all European markets



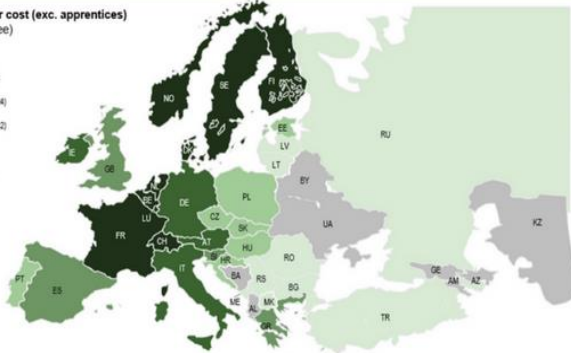
## ARCELIK INTERNATIONAL PERFORMANCE

Strengthening international performance as Beko captures leading position in East Europe, and Grundig MDA sales growth of 63%



# Why *arçelik* – Inherent Capabilities

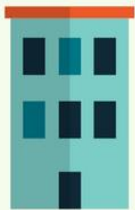
Hourly labour cost (exc. apprentices)  
(EUR/employee)



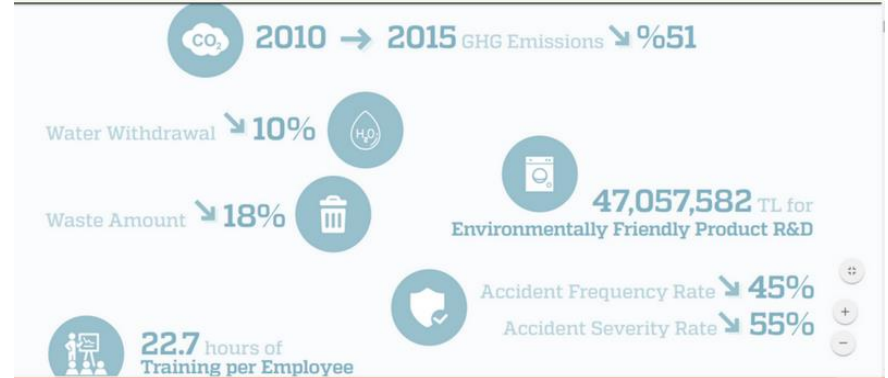
Most labour intensive functions including headquarters and production plants are located in low labour costs countries (LCC)



## COST COMPETITIVE



## STRONG DEALER NETWORK AND AFTER SALES SERVICE



## DISTINGUISHED SUSTAINABILITY



## INTERNATIONAL DIVERSIFICATION AND VIRTUOUS GROWTH





# Why *arçelik* - What's next?



## STRONG FINANCIALS

2017 Forecasts

Dividend Yield (%): 3.4    EV/EBITDA: 8.1  
ROE(%): 16.2                  WC/Sales: 30%

Arcelik has a long standing tradition of giving surprises and beating consensus estimates



## IF USD WEAKENS?

USD price is under the strong influence of the upcoming presidential elections. Weakened USD will drive Arcelik's margins and profitability in the international market

## CASH REGISTER SALES

POS cash registers deadline has been extended to 2017 end. As a new business model feature, it is expected to account for around 50% of replacement market



## HOT TOPIC: INTERNATIONAL EXPANSION

Acquisition of the leading Dawlance brand in Pakistan, greenfield investment in Thailand, and expansion in ASEAN region, all promise a profitable future

# Financials and Valuation

## Ratio, growth and per share analysis

Year to	12/2015a	12/2016e
<b>Y-o-y % change</b>		
Revenue	13.2	16.7
EBITDA	9.2	20.4
Operating profit	10.0	20.9
PBT	7.3	66.5
HSBC EPS	23.3	8.4
<b>Ratios (%)</b>		
Revenue/IC (x)	1.9	2.1
ROIC	16.9	15.8
ROE	16.9	16.0
ROA	18.3	18.6
EBITDA margin	10.3	10.6
Operating profit margin	7.7	7.9
EBITDA/net interest (x)	2.7	3.4
Net debt/equity	69.9	52.5
Net debt/EBITDA (x)	2.2	1.7
CF from operations/net debt	23.8	24.7
<b>Per share data (TRY)</b>		
EPS Rep (diluted)	1.32	1.83
HSBC EPS (diluted)	1.13	1.22
DPS	0.39	0.59
Book value	6.89	8.34

## Valuation data

Year to	12/2015a	12/2016e
EV/sales	1.2	1.0
EV/EBITDA	11.4	9.3
EV/IC	2.2	2.0
PE*	18.6	17.1
PB	3.0	2.5
FCF yield (%)	1.6	0.1
Dividend yield (%)	1.9	2.8

\* Based on HSBC EPS (diluted)

Source: HSBC estimates

## Arcelik's revenue growth forecasts

