

Turkey — Apparel

Mavi Giyim

Deep blue value

Adding Mavi to Model Portfolio with TL 120 Price Target and 73% potential upside. Our valuation is based on equal weighted DCF (20% risk free rate, 7% equity premium, 24% WACC), and 30% discount applied to global peer median valuation benchmarks of 2022E 7.1x EV/EBITDA and 15.3x P/E. We are above Bloomberg consensus on 2022 estimates: +22% net sales, +12% EBITDA and +15% net earnings. Our dividend estimate on 2021 earnings is TL 2.22 per share, implying 3.2% yield. Details of our valuation are on Pages 3-4.

Stellar 3Q21 performance showing operating performance rebounding to above pre-pandemic levels. As most restrictions has been lifted in June, Turkey business posted 73% growth y/y in 3Q21. Management cites conversion rates, units per transaction and average basket size, all reaching above the pre-pandemic levels in 3Q19. Pent-up demand has factored in 9M21 growth numbers, but we see signs of continued strong domestic demand in 4Q21 and 1Q this year. We attribute this to Mavi's brand power, consistent and smart pricing based on high & low marketing, plus different income segment targeting strategies. Competition from upper segment have weakened substantially on higher pricing & lower inventory offerings of those brands in Turkey market. In 9M21, international sales rebounded strongly as well, 44% on constant currency basis over 9M2019, reaching 20% of total revenues. On line sales are growing exponentially and have reached 11% of Turkey and 33% of international sales in 9M21.

2022 to be another high growth year with 42% increase in revenues. In Turkey, combination of strong demand and sharply rising inflation would translate to 38% revenue growth (on-line portion 70+%), on 2-3% increase in store number & footprint estimates. We conservatively estimate same level (FX) international sales this year with upside risks in North America markets. Still, the international sale growth in TL terms would be 58% y/y due to sharply higher average USDTRY assumption of 15 vs. 9 in 2021, rising to 20% of revenues (2021E: 17%).

Cost inflation impact likely to be mitigated by pricing, online and international sales. Another impressive aspect of 3Q21 results was the EBITDA margin improvement to 20% in vs. 17.8% in 3Q20 and 18.8% in 3Q19. In fact, the low volatility of EBITDA margins across the said time period is a strong evidence of Mavi's pricing power and its capability of maintaining high profitability during turbulent times. That said, 2022 is likely to be the most challenging year in terms of cost pressures, with Turkey hitting 20-year record high of inflation and Lira nearing all time lows against hard currencies in 1Q22. Lira weakness does have a substantial impact on manufacturing costs, given 20% are imported. Against this backdrop, Turkey pricing & demand dynamics and stronger margin contribution from on-line channels would be decisive in maintaining EBITDA margin at current levels. As mentioned, we have a positive view on domestic demand outlook on Mavi products. Coupled with higher TL contribution from international sales, we estimate a limited 200bps 2022E EBITDA margin shrinkage; still translating into 24% nominal EBITDA growth.

Hard to find fault with the investment case. We think Mavi has a uniquely appealing investment case. It has a i) strong brand name with significant pricing power, ii) good distribution network, an expanding product range and global footprint, iii) proven track record of delivering consistently strong results across a wide range of market conditions, iv) net cash position and commitment to distribute 30% of earnings as dividends, and v) attractive valuation as measured by cash generation prospects and comparison with peers. The chances of success for passing on the cost pressure to sales and savings where necessary are high; the current share price is a good entry point.

MAVI	2018	2019	2020	2021E	2022E	2023E
Net Income (TL mn)	92	95	5	367	518	639
Revenue (TL mn)	2,353	2,863	2,402	4,456	6,314	7,995
EBITDA (TL mn)	365	640	385	992	1,231	1,596
Net Debt/EBITDA (x)	0.3	0.7	1.3	0.1	-0.3	-0.6

Source: Company Data, INFO Research Estimates

BUY

Price: TL69.20

Price Target: TL120

Company Data

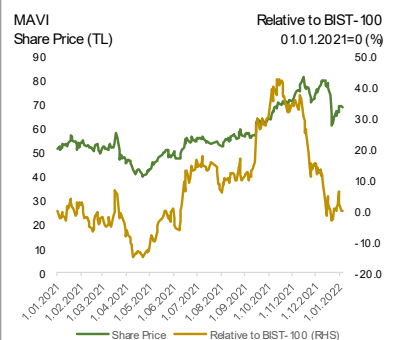
Stock Ticker	MAVI
Stock Rating	BUY
Price Target	120
Up/downside to PT	73%
Share Price	69.20
52-week range (TL)	36.17 - 73.6
No. of shares (mn)	50
Free Float	73%
MCAP (TL mn)	3,436
MCAP (USD mn)	252
Net Debt (TL mn)	121
3M ADV (USD mn)	5
3M ADV/FF MCAP (%)	2.9%

Valuation

	2020	21E	22E	23E
P/E (x)	749.8	9.4	6.6	5.4
EV/EBITDA (x)	10.3	4.0	3.2	2.5
P/B (x)	6.7	4.0	2.7	2.0
Div. Yield	0.8%	3.2%	4.5%	5.6%

Source: INFO Research Estimates

Stock Performance



INFO Research

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Please read the disclaimer at the end of the report.

Table 1. Financials

Income Statement					Financial Analysis				
(TL mn)	2020	2021E	2022E	2023E		2020	2021E	2022E	2023E
Net Sales	2,402	4,456	6,314	7,995	Growth (%)				
Gross profit (loss)	1,160	2,267	3,157	3,998	Sales	-16.1	85.5	41.7	26.6
Operating Expenses	-1,087	-1,693	-2,273	-2,878	EBITDA	-39.9	157.9	24.1	29.7
Core EBIT	73	573	884	1,119	Net Profit	-95.2	7916.0	41.1	23.4
Inc.& Exp. from Other Operations	18	46	63	80	Margins (%)				
Reported EBIT	91	619	947	1,199	Gross Margin	48.3	50.9	50.0	50.0
Financial Income/Expenses	-77	-135	-268	-362	EBITDA Margin	16.0	22.3	19.5	20.0
Other income	-1	-3	0	0	EBIT Margin	3.0	12.9	14.0	14.0
PBT from continuing operations	12	481	679	837	Net Margin	0.2	8.2	8.2	8.0
Tax on Continuing Operations	-4	-120	-170	-209	Efficiency				
Net Profit	5	367	518	639	# Receivables Days	37	30	30	30
					Inventory Days	155	125	125	125
EBITDA	385	992	1,231	1,596	Payables Days	185	130	140	140
					Working Capital/Net Sales (%)	7	8	6	6
Balance Sheet					Profitability (%)				
(TL mn)	2020	2021E	2022E	2023E	ROA	0.2	11.2	12.0	12.3
Current Assets	1,787	2,624	3,754	4,768	ROE	0.9	43.2	41.2	36.7
Cash and Marketable Securities	890	1,337	1,911	2,436	ROIC	4.6	46.1	75.3	102.2
ST Trade and Related Receivables	245	366	519	657	Leverage (x)				
Inventories	560	750	1,081	1,369	Asset/Equity	5.31	3.86	3.44	2.98
Other Short-Term Assets	92	171	242	307	Net Debt/EBITDA	1.34	0.08	-0.32	-0.60
Long Term Assets	921	665	573	418	Capex/Revenues (%)	4.1	3.6	4.0	4.0
TOTAL ASSETS	2,708	3,289	4,327	5,187					
Short Term Liabilities	1,786	1,600	2,149	2,520					
ST Financial Payables	1,040	638	681	660					
ST Trade and Other Payables	649	780	1,211	1,533					
Other Short-Term Liabilities	98	182	257	326					
Long Term Liabilities	388	821	892	886					
LT Financial Payables	366	780	834	812					
Other Long-Term Liabilities	22	41	58	74					
Equity	510	851	1,259	1,743					
Minority Interest	24	18	27	38					
TOTAL LIABILITIES AND S.HOLDERS' EQUITY	2,708	3,289	4,327	5,187					

Source: Company Data, INFO Research Estimates

Table 2. Cash Flow

DCF	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E
EBIT	189	295	360	73	573	884	1,119	1,175	1,278	1,390
+ Depreciation & amortisation	62	70	280	312	419	347	477	432	562	581
- Capex	-72	-66	-100	-99	-160	-253	-320	-336	-466	-546
- Change in working capital	0	-40	-20	-23	-180	-53	-104	-25	-45	-49
- Taxes	-37	-70	-78	-26	-143	-221	-280	-294	-320	-348
- Other										
Free cash flow to firm (FCFF)	142	188	442	237	508	704	893	953	1,010	1,029
Discount factor					1.00	0.81	0.65	0.52	0.42	0.34
Discounted cash flow for projected period	2,937				510	569	582	500	427	350
Discounted cash flow for perpetuity	2,341									
Enterprise value	5,278									
- Last year's net debt	515									
- Minority interest	24									
+ Participations	0									
Equity value	4,738									
Implied Price	95									
12M Equity Value	5,883									
Implied Price Target (PT)	118									
Potential upside	71%									
WACC										
Risk free rate	20.0%									
Beta	0.92									
Equity risk premium	7.0%									
Cost of equity	26.4%									
Cost of debt, after tax	20.0%									
Debt ratio	35.5%									
Weighted average cost of capital	24.2%									
Terminal growth rate	8.0%									

Source: Company Data, INFO Research Estimates

Table 3. Valuation

Valuation Method	Weight	Implied Value	Contribution
DCF	50%	5,879	2,939
Peer Comparison	50%	6,077	3,039
Target Value (TL mn)			5,978
Target Price (TL)			120
Current Price (TL)			69.75
Upside Potential			73%

Source: INFO Research Estimates

Table 4. Peer Multiples

RT Ticker	Company Name	Mcap (USD mn)	2021(E)		2022(E)	
			P/E	EV/EBITDA	P/E	EV/EBITDA
ITX:ES	Industria De Diseno Textil Sa	100,399	23.9	11.1	21.6	10.3
LEVI:USY	Levi Strauss & Co (A)	9,548	17.8	13.1	15.3	10.8
RL:USY	Ralph Lauren Corp (A)	8,991	16.7	9.5	15.0	8.7
600398:CNA	Hla Group Corp Ltd (A)	4,429	9.6	4.8	8.3	4.2
BOSS:DEX	Hugo Boss Ag	4,263	31.8	8.2	21.7	7.0
1234:HK	China Lilang Ltd	668	6.4	4.1	5.5	3.1
SDRY:GB	Superdry Plc	306	-13.6	13.4	27.2	7.2
DLA:USY	Delta Apparel Inc	215	9.5	8.1	9.7	8.0
GW12:DEX	Gerry Weber International Ag	54	-2.3	15.0	6.2	5.6
	Median		9.6	9.5	15.0	7.2
MAVI	Mavi Giyim	252	9.4	4.0	6.6	3.2

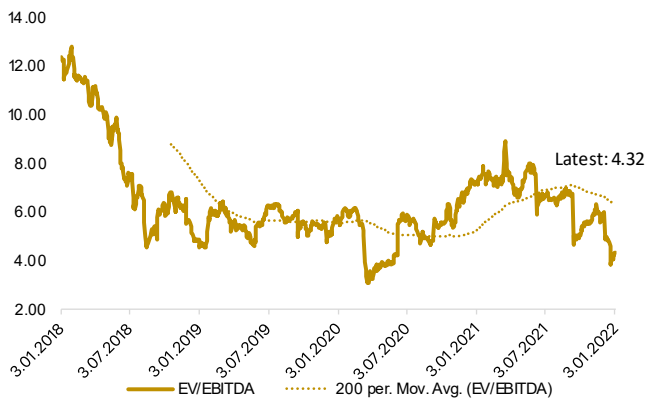
Source: Equity RT, Info Research Estimates

Table 5. Peer Performance

	Absolute Return in Local Currency (%)				Relative Return in Local Currency (%)			
	YTD	1M	3M	12M	YTD	1M	3M	12M
Industria De Diseno Textil Sa	-0.2	-0.6	-6.3	10.3	-0.2	-0.6	-6.3	10.3
Levi Strauss & Co (A)	-5.1	-6.8	-1.7	16.7	-5.1	-6.8	-1.7	16.7
Ralph Lauren Corp (A)	2.8	-0.4	6.0	12.9	2.8	-0.4	6.0	12.9
Hla Group Corp Ltd (A)	1.9	3.3	-7.1	4.3	1.9	3.3	-7.1	4.3
Hugo Boss Ag	0.0	2.3	4.7	94.9	0.0	2.3	4.7	94.9
China Lilang Ltd	-0.2	2.8	-1.1	-13.6	-0.2	2.8	-1.1	-13.6
Superdry Plc	-0.9	-2.1	14.3	18.9	-0.9	-2.1	14.3	18.9
Delta Apparel Inc	2.6	5.2	12.6	48.4	2.6	5.2	12.6	48.4
Gerry Weber International Ag	1.0	2.6	44.1	60.7	-6.5	-1.5	-1.5	20.5
Mavi Giyim	-0.7	-10.7	2.5	33.8	-8.1	-14.3	-30.0	0.4

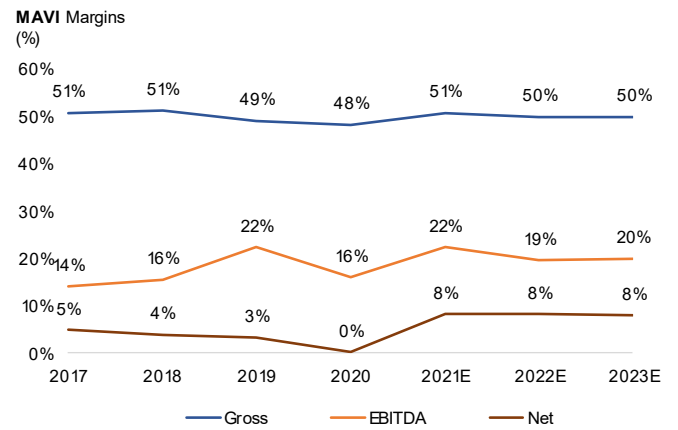
Source: Equity RT

Table 6. Historical EV/EBITDA Multiple



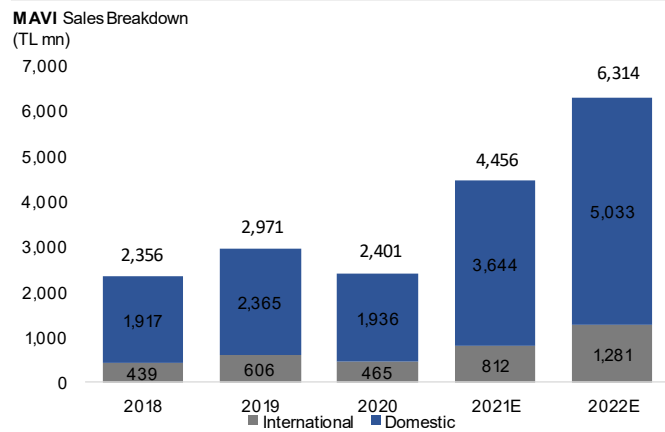
Source: Equity RT

Table 7. Profitability



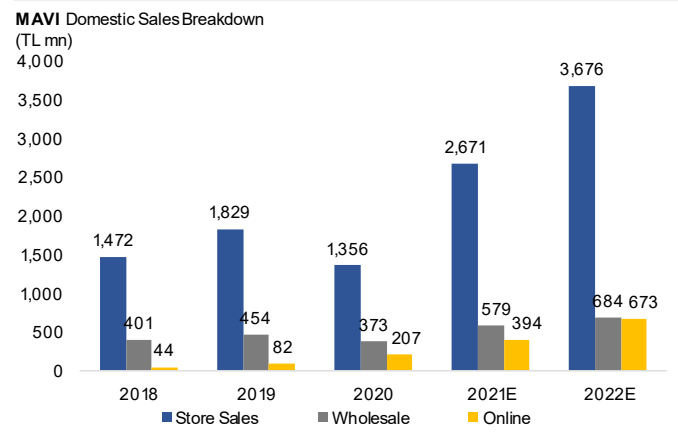
Source: Equity RT, INFO Estimates

Table 8. Sales Breakdown



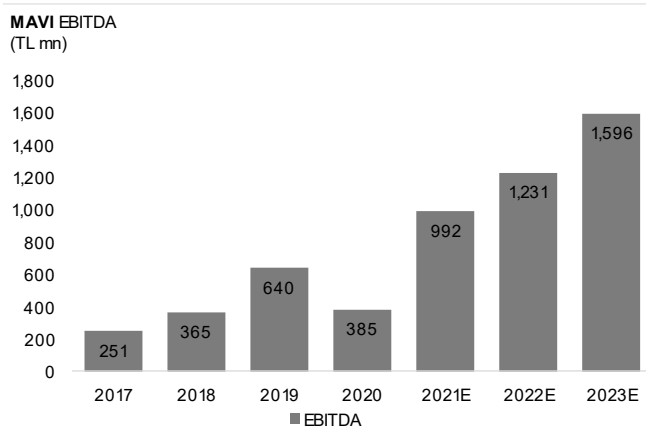
Source: Company Data, INFO Estimates

Table 9. Domestic Sales Breakdown



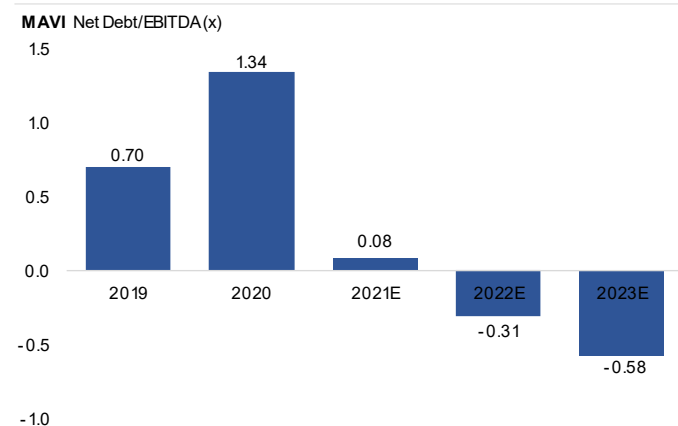
Source: Company Data, INFO Estimates

Table 10. EBITDA



Source: Company Data, INFO Estimates

Table 11. Net Debt / EBITDA (x)



Source: Company Data, INFO Estimates

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