

Turkey — Home Appliances

Arcelik A.Ş.

Valuation Attractive On Growth Upside

We are raising our TP for ARCLK from TL77 to TL88, keeping the stock in our Model Portfolio on 32% potential upside.

Arcelik has announced strong 1Q results last week, raising year-end TL revenue growth guidance to 80% from 60%, on the back of 60% TL revenue growth in Turkey (previously 35%) and 25% FX growth in international sales (previously 20%). Increase in net working capital to 27.7% was the key setback (higher inventories and receivables), although full-year guidance for the said ratio remains unchanged at 25%. EBITDA margin recovered by 120bps q/q to 10.6%, which we regard as a benign level, given the surge in manufacturing costs. In fact, we regard this as a key evidence of the Company's strong market position and ample pricing power, especially in Turkey and East European markets.

Normalisation of EBITDA margin from 1H21 has been an expected development, not only because of the said cost pressure, but also due to the high base effect, as 12-14% range of 2020/21 were unusually robust vs. historical averages. We see the 10.5% guidance for 2022 as achievable due to the strong brand positioning and market share gains in European markets (UK, Spain, Poland, Romania); but perhaps more importantly, inflationary dynamics feeding into real-estate demand and pull forward effect on big-ticket items consumption in general. Turkey's share in Arcelik revenues has fallen to 30% from 36% in 1Q21, but the jump in revenue growth from 35% to 60% suggests higher profitability in domestic sales could compensate for further cost increases in coming quarters.

That said, we think there is more to the Arcelik investment case than the above short-term considerations. North America market is the natural next step for international expansion. Successful market share gains across Europe provide the Company with scale and scope to further expand its brand portfolio in the region. We welcome the buy back shares program implemented last year that resulted in 9% of shares being held as treasury stock, given the attractive valuation. This had a positive impact on share price performance and as the buy-back draws to a close, short-term share price volatility may increase. However, we think the focus may turn to potentially value accretive acquisitions in North America and/or Europe.

We value Arcelik based on the Company's own past three year average EV/EBITDA and P/E 6.3x and 10.9x, which imply TL88/share on 2022 estimates. Arcelik currently trades at 2022E EV/EBITDA 4.4x vs. peer median of 7.4x (Table 5). We would regard any share price weakness from current levels as a buying opportunity.

ARCLK	2018	2019	2020	2021E	2022E	2023E
Net Income (TL mn)	852	925	2,848	3,065	5,511	7,839
Revenue (TL mn)	26,904	31,942	40,872	68,184	125,218	146,806
EBITDA (TL mn)	2,727	3,294	5,065	6,853	12,552	15,926
Net Debt/EBITDA (x)	2.4	2.4	1.0	2.4	1.8	1.4

Source: Company Data, INFO Research Estimates

BUY

Price: TL67.40

Price Target: TL88

Company Data

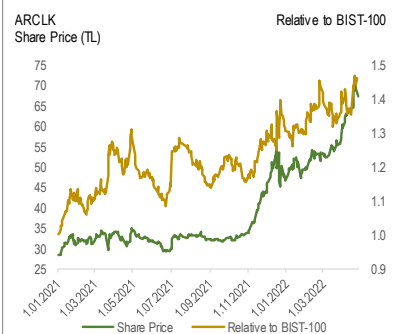
Stock Ticker	ARCLK
Stock Rating	BUY
Price Target	88
Up/downside to PT	32%
Share Price	67.40
52-week range (TL)	26.62 - 59.6
No. of shares (mn)	676
Free Float	25%
MCAP (TL mn)	45,544
MCAP (USD mn)	3,084
Net Debt (TL mn)	13,973
3M ADV (USD mn)	19
3M ADV/FF MCAP (%)	2.5%

Valuation

	2020	2021	22E	23E
P/E (x)	12.0	11.2	6.2	4.4
EV/EBITDA (x)	10.9	8.0	4.4	3.5
P/B (x)	2.5	1.8	1.5	1.3
Div. Yield	4.4%	4.5%	8.0%	11.4%

Source: INFO Research Estimates

Stock Performance



INFO Research

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Table 1. Financials

Income Statement					Financial Analysis				
(TLmn)	2020	2021	2022E	2023E		2020	2021	2022E	2023E
Net Sales	40,872	68,184	125,218	146,806	Growth (%)				
Gross profit (loss)	13,806	20,478	39,694	46,537	Sales	28.0	66.8	83.6	17.2
Operating Expenses	-318	-444	-989	-1,160	EBITDA	53.8	35.3	83.1	26.9
Core EBIT	3,843	5,008	10,894	12,772	Net Profit	207.9	7.6	79.8	42.2
Inc. & Exp. from Other Operations	1,009	2,013	522	561	Margins (%)				
Reported EBIT	4,852	7,020	11,416	13,333	Gross Margin	33.8	30.0	31.7	31.7
Financial Income/Expenses	-1,572	-3,660	-5,708	-4,433	EBITDA Margin	12.4	10.1	10.0	10.8
Other income	176	307	299	351	EBIT Margin	9.4	7.3	8.7	8.7
PBT from continuing operations	3,498	3,623	6,008	9,250	Net Margin	7.0	4.5	4.4	5.3
Tax on Continuing Operations	-619	-372	-683	-1,598	Efficiency				
Net Profit	2,848	3,065	5,511	7,839	Receivables Days	97	98	98	98
					Inventory Days	86	90	90	90
EBITDA	5,065	6,853	12,552	15,926	Payables Days	110	100	100	100
					Working Capital/Net Sales (%)	21.7	24.9	25.0	25.0
					Profitability (%)				
Balance Sheet					ROA	6.1	3.6	5.2	6.5
(TLmn)	2020	2021	2022E	2023E	ROE	20.6	15.8	24.9	28.8
Current Assets	33,061	59,595	78,373	90,416	ROIC	16.5	11.6	23.2	22.6
Cash and Marketable Securities	12,002	16,015	17,531	19,085	Leverage (x)				
ST Trade and Related Receivables	12,149	23,412	33,620	39,416	Asset/Equity	3.37	4.39	4.80	4.41
Inventories	7,096	16,829	21,088	24,724	Net Debt/EBITDA	1.00	2.42	1.78	1.39
Other Short-Term Assets	1,814	3,340	6,134	7,191	Capex/Revenues (%)	3.8	3.3	3.0	3.0
Long Term Assets	13,488	25,484	27,938	29,575					
TOTAL ASSETS	46,549	85,079	106,310	119,991					
Short Term Liabilities	23,827	40,502	50,060	56,725					
ST Financial Payables	10,231	13,044	14,714	15,286					
ST Trade and Other Payables	10,379	20,970	23,431	27,471					
Other Short-Term Liabilities	3,217	6,488	11,914	13,968					
Long Term Liabilities	8,698	23,522	32,440	34,559					
LT Financial Payables	6,844	19,535	25,119	25,976					
Other Long-Term Liabilities	1,854	3,986	7,321	8,583					
Equity	13,820	19,383	22,147	27,230					
Minority Interest	204	1,672	1,663	1,477					
TOTAL LIABILITIES AND S.HOLDERS' EQUITY	46,549	85,079	106,310	119,991					

Source: Company Data, INFO Research Estimates

Table 2. Valuation

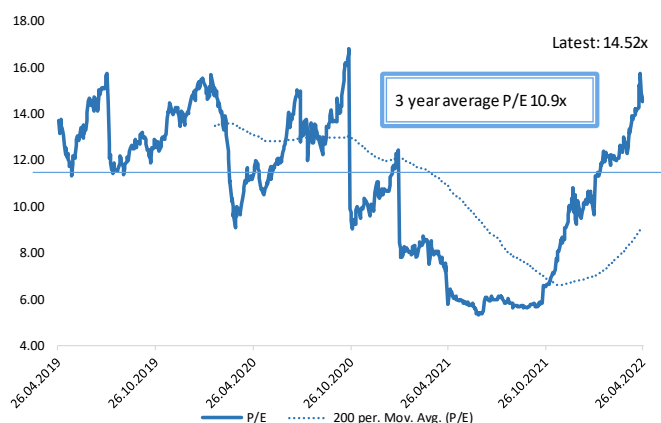
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Valuation

Method	Weight	Multiple	Implied Value	Contribution
EV/EBITDA	50%	6.3x	59,031	29,515
P/E	50%	10.9x	60,054	30,027
Target Value (TL mn)				59,543
Target Price (TL)				88
Current Price (TL)				67
Upside Potential				32%

Source: Company Data, INFO Research Estimates

Table 3. 3-Years P/E Multiple Average: 10.9x



Source: Equity RT

Table 4. 3-Years EV/EBITDA Multiple Average: 6.3x



Source: Equity RT

Table 5. Peer Multiples

RT Ticker	Company Name	Mcap (USD mn)	2022(E)		2023(E)	
			P/E	EV/EBITDA	P/E	EV/EBITDA
DLG:IT	De'longhi Spa	3,651	13.4	7.4	11.8	6.6
000333:CNE	Midea Group Co Ltd (A)	55,386	11.0	9.7	9.5	8.5
ELUXB:SE	Electrolux B	5,568	11.2	4.9	4.5	9.4
WHR:USY	Whirlpool Corp	10,970	7.2	5.5	6.7	5.3
600690:CNA	Haier Smart Home Co Ltd (A)	33,251	14.7	8.8	12.7	7.9
	Median		11.2	7.4	9.5	7.9
ARCLK	Arcelik	3,084	6.2	4.4	4.4	3.5
	Discount		80%	69%	117%	125%

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