

Turkey — Home Appliances

Arcelik A.Ş.

Fortune Favors Arcelik

Adding Arcelik to Model Portfolio with TL 77 Price Target and 44% potential upside.

Our valuation is equal weighted DCF (20% risk free rate, 5% equity premium, 18% WACC) and peer multiples comparison (2022E EV/EBITDA 6.3x, including local peers VESTL and VESBE). Details of our valuation are on Page 3-4.

One of the few companies that truly fit the currently favored FX exposure investment theme at BIST.

Share of international and export revenues have reached 70% of Arcelik sales in 3Q21. The Company has successfully increased its European market share organically and through acquisitions since 2002. The concentration in recent years has been expanding the footprint globally, with the last year's USD343m acquisition of ex-Japan operations of Hitachi being the latest example. Despite the said acquisition cost, TL1.5bn cash dividend payments in 1Q21 and TL1.2bn spent so far on share buyback plan announced in July, Arcelik's financial leverage remains at a benign level of 2.0x. Additionally, the Company has been very keen on being FX neutral on its financial position. Perhaps most importantly, Arcelik's strong market position in Turkey and favorable pricing in international sales give the company a certain degree of pricing flexibility and power to defend its EBITDA margin against rising input costs.

White goods demand to remain resilient. In Turkey, Arcelik has been successful in passing on price increases in 3Q and 4Q, thanks to the robust demand. While further price adjustments to cover steep increases in FX denominated input costs may inevitably impact demand, we expect only a slight decrease in 2022 volumes of 5% -still above pre-pandemic levels, but 16% below 2017. We expect the key factor behind demand resilience to be elevated residential demand since last year. In addition, the number of installments in domestic white goods consumption has been reduced from twelve to nine. In case of a potential shrinkage in demand, number of installments could be increased back to a longer duration. We do not expect serious volatility in the overseas markets, especially in the Eurozone. This translates into an overall stable volume outlook.

Share buyback program continues. Arcelik announced its current share buyback program for 67.6 m shares (TL 2.4 bn worth, 10% of capital) in July, on the grounds that the share price did not reflect the fair value of the Company. Arcelik bought 35 m shares, corresponding to c50% of the shares earmarked for buyback; latest purchase was yesterday with 945 k shares at TL50.22 / share. We think the pace & size of buying of the announced program the remaining buyback portion would provide support for price performance.

Attractive multiples and sharp discounts to peer averages. Arcelik's global & local peers are trading at a 2022E median P/E of 11.8x; EV/EBITDA of 6.3x. Our 2022 revenue, EBITDA and net income estimates are 51%, 40% and 63% above Bloomberg consensus. Accordingly, Arcelik is trading at 2022E P/E ratio of 5.8x, and EV/EBITDA ratio of 4.0x. Arcelik's past three year EV/EBITDA multiple average is 6.25x (Page 5).

Further acquisition potential. We estimate the contribution of the latest two acquisitions (Hitachi and Whirlpool) to Arcelik turnover as c \$1.25 billion in 2022. Looking at the current geographical footprint, we think Arcelik may seek to increase its presence in the US, rendering this market as the likely next step in acquisitions. The Company's low leverage leaves ample room for funding such a move.

BUY

Price: TL53.50

Price Target: TL77

Company Data

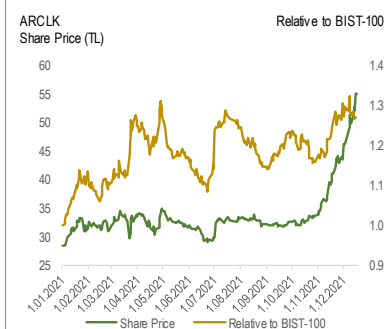
Stock Ticker	ARCLK
Stock Rating	BUY
Price Target	77
Up/downside to PT	44%
Share Price	53.50
52-week range (TL)	26.62 - 59.6
No. of shares (mn)	676
Free Float	25%
MCAP (TL mn)	36,151
MCAP (USD mn)	2,069
Net Debt (TL mn)	13,973
3M ADV (USD mn)	24
3M ADV/FF MCAP (%)	4.7%

Valuation

	2020	21E	22E	23E
P/E (x)	12.7	12.1	5.8	4.7
EV/EBITDA (x)	9.8	6.5	4.0	3.3
P/B (x)	2.6	2.4	1.8	1.5
Div. Yield	4.2%	4.1%	8.6%	10.6%

Kaynak: INFO Research Estimates

Stock Performance



INFO Research

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ARCLK	2018	2019	2020	2021E	2022E	2023E
Net Income (TL mn)	852	925	2,848	2,986	6,225	7,637
Revenue (TL mn)	26,904	31,942	40,872	72,028	125,185	146,767
EBITDA (TL mn)	2,727	3,294	5,065	7,634	12,549	14,995
Net Debt/EBITDA (x)	2.4	2.4	1.0	1.6	1.8	1.6

Source: Company Data, INFO Research Estimates

Table 1. Financials

Income Statement					Financial Analysis				
(TLmn)	2020	2021E	2022E	2023E		2020	2021E	2022E	2023E
Net Sales	40,872	72,028	125,185	146,767	Growth (%)				
Gross profit (loss)	13,806	21,910	39,684	46,525	Sales	28.0	76.2	73.8	17.2
Operating Expenses	-9,963	-15,651	-28,792	-33,756	EBITDA	53.8	50.7	64.4	19.5
Core EBIT	3,843	6,259	10,891	12,769	Net Profit	207.9	4.9	108.5	22.7
Inc.& Exp. from Other Operations	1,009	350	522	561	Margins (%)				
Reported EBIT	4,852	6,609	11,413	13,330	Gross Margin	33.8	30.4	31.7	31.7
Financial Income/Expenses	-1,572	-3,652	-4,179	-4,429	EBITDA Margin	12.4	10.6	10.0	10.2
Other income	176	310	227	266	EBIT Margin	9.4	8.7	8.7	8.7
PBT from continuing operations	3,498	3,268	7,461	9,166	Net Margin	7.0	4.1	5.0	5.2
Tax on Continuing Operations	-619	-313	-1,267	-1,560	Efficiency				
Net Profit	2,848	2,986	6,225	7,637	Receivables Days	97	98	98	98
					Inventory Days	86	90	90	90
EBITDA	5,065	7,634	12,549	14,995	Payables Days	110	100	100	100
					Working Capital/Net Sales (%)	21.7	24.9	25.0	25.0
Balance Sheet					Profitability (%)				
(TLmn)	2020	2021E	2022E	2023E	ROA	6.1	4.6	6.3	6.7
Current Assets	33,061	45,697	77,774	89,715	ROE	20.6	19.5	31.1	31.1
Cash and Marketable Securities	12,002	10,804	17,526	19,080	ROIC	16.5	22.7	22.8	22.9
ST Trade and Related Receivables	12,149	19,339	33,611	39,406	Leverage (x)				
Inventories	7,096	12,358	21,082	24,717	Asset/Equity	3.37	4.20	4.94	4.63
Other Short-Term Assets	1,814	3,196	5,555	6,512	Net Debt/EBITDA	1.00	1.61	1.77	1.61
Long Term Assets	13,488	18,533	21,144	23,854	Capex/Revenues (%)	3.8	3.3	3.0	3.0
TOTAL ASSETS	46,549	64,230	98,918	113,569					
Short Term Liabilities	23,827	30,401	47,977	55,091					
ST Financial Payables	10,231	8,032	14,699	16,076					
ST Trade and Other Payables	10,379	16,700	23,425	27,464					
Other Short-Term Liabilities	3,217	5,669	9,853	11,552					
Long Term Liabilities	8,698	18,363	30,774	33,818					
LT Financial Payables	6,844	15,096	25,096	27,161					
Other Long-Term Liabilities	1,854	3,267	5,678	6,657					
Equity	13,820	15,293	20,025	24,550					
Minority Interest	204	173	142	110					
TOTAL LIABILITIES AND S.HOLDERS' EQUITY	46,549	64,230	98,918	113,569					

Source: Company Data, INFO Research Estimates

Table 2. Cash Flow

DCF	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E
EBIT	1,372	2,037	2,239	3,843	6,259	10,891	12,769	13,406	15,308	17,167
+ Depreciation & amortisation	548	690	1,055	1,222	1,375	1,658	2,226	2,520	2,824	3,175
- Capex	-968	-1,760	-1,338	-1,562	-2,377	-3,756	-4,403	-5,027	-5,740	-6,437
- Change in working capital	0	-1,366	-1,343	275	-9,100	-13,303	-5,391	-5,167	-5,932	-5,799
- Taxes	-274	-448	-493	-845	-313	-1,267	-1,560	-1,607	-1,850	-2,125
- Other										
Free cash flow to firm (FCFF)	677	-846	120	2,932	-4,155	-5,776	3,641	4,125	4,609	5,980
Discount factor					1.00	0.85	0.72	0.61	0.52	0.44
Discounted cash flow for projected period	1,175				-4,135	-4,890	2,621	2,527	2,401	2,650
Discounted cash flow for perpetuity	44,842									
Enterprise value	46,017									
- Latest net debt	13,973									
- Minority interest	204									
+ Participations	654									
Equity value	32,493									
12m Equity Value	38,199									
Implied Price Target (PT)	56.50									
Potential upside	6%									

WACC	
Risk free rate	20.0%
Beta	0.93
Equity risk premium	5.0%
Cost of equity	24.7%
Cost of debt, after tax (2020-2026E)	12.8%
Debt ratio	59.7%
Weighted average cost of capital	17.6%
Terminal growth rate	11.0%

Source: Company Data, INFO Research Estimates

Table 3. Valuation

Valuation			
Method	Weight	Implied Value	Contribution
DCF	50%	38,199	19,100
Peer Comparison	50%	66,028	33,014
Target Value (TL mn)			52,114
Target Price (TL)			77
Current Price (TL)			53.50
Upside Potential			44%

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
DLG:IT	De'longhi Spa	5,257	15.0	8.9	16.0	9.1
000333:CNE	Midea Group Co Ltd (A)	75,252	16.5	14.7	14.3	12.4
ELUXB:SE	Electrolux B	6,750	11.6	5.3	11.8	5.3
WHR:USY	Whirlpool Corp	13,993	8.8	6.0	9.2	6.3
600690:CNA	Haier Smart Home Co Ltd	29,141	21.0	8.9	17.4	7.6
VESBE	Vestel Beyaz Esya	750	9.0	6.9	7.0	5.5
VESTL	Vestel	527	6.6	4.5	4.3	3.5
	Median		11.6	6.9	11.8	6.3
ARCLK	Arcelik	2,069	12.1	6.5	5.8	4.0
			-4%	5%	103%	60%

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
De'longhi Spa	21.4	-0.6	-7.9	17.8	13.8	1.5	-8.1	8.8
Midea Group Co Ltd (A)	-28.8	-1.9	0.6	-21.5	-34.3	-3.1	-2.4	-29.6
Electrolux B	25.5	-0.9	16.6	22.1	2.0	2.0	14.9	-0.1
Whirlpool Corp	30.8	0.5	10.9	25.3	14.0	2.3	7.5	8.8
Haier Smart Home Co Ltd	2.3	4.5	9.9	8.0	-2.2	2.4	9.3	0.9
Vestel Beyaz Esya	84.5	16.3	43.7	112.4	32.5	-1.7	-2.7	45.4
Vestel	65.5	1.7	15.6	66.6	18.8	-14.1	-21.7	14.1
Arcelik	88.0	30.3	68.8	93.3	35.0	10.1	14.2	32.4

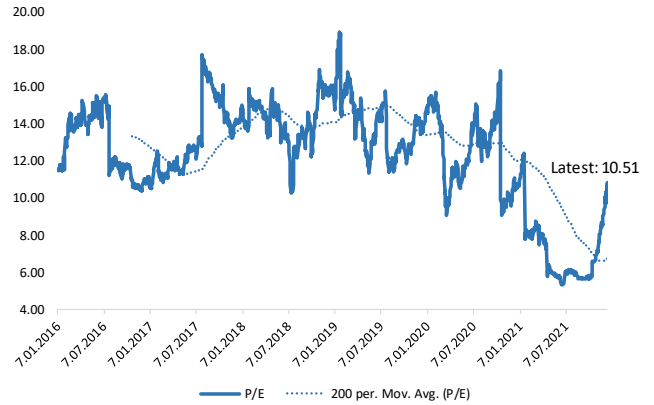
Source: Equity RT

Table 6. Historical EV/EBITDA Multiple



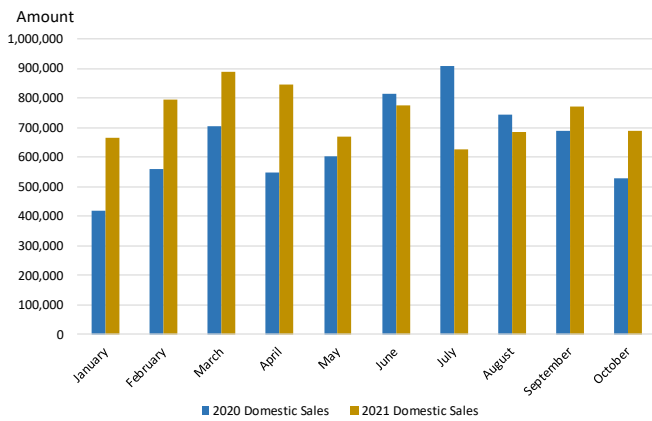
Source: Equity RT

Table 7. Historical P/E Multiple



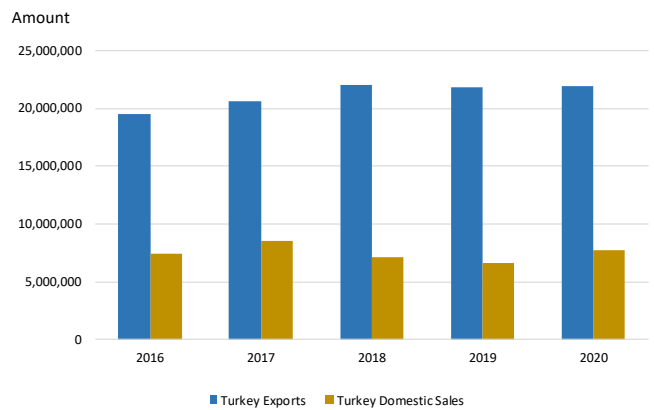
Source: Equity RT

Table 8. Turkey White Goods Sales (Monthly)



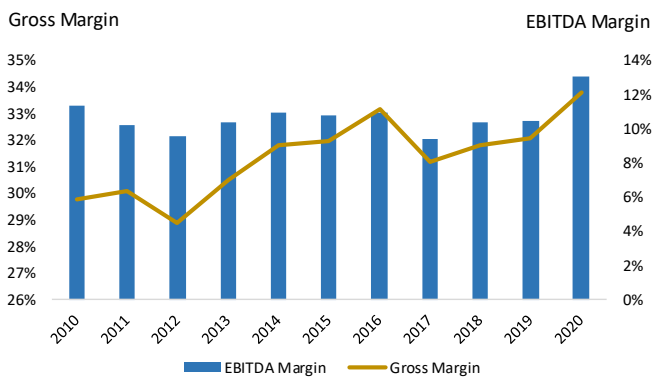
Source: TURKBESD, Bloomberg HT

Table 9. Turkey White Goods Domestic Sales and Exports



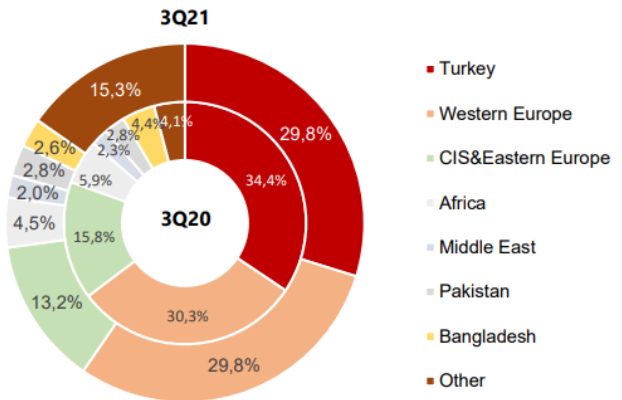
Source: TURKBESD

Table 9. ARCLK Gross and EBITDA Margins



Source: Company Data

Table 10. ARCLK Revenue Breakdown



Source: Company Data

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