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December 19, 2013

COMPANY UPDATE

BIMEKS

Shooting the DART: Straight into the Bull's Eye

We maintain our favourable view of Bimeks (BUY/OUTPERFORM) following yesterday's announcement by the Company of its decision to acquire Darty-Turkey. The deal will propel Bimeks to the second slot (c.21% market share) -- from previously fourth -- in Turkish technical superstores market. Given the projected 18% sales area expansion and improvement in working capital, we revise our target price up by 24% to TRL3.10. Note, though, that our target price is subject to change (probably no more than ± c.5%), based on the acquisition price to be disclosed. We expect Bimeks to feature among leading stocks in the BIST on net income growth, with 116% 2013E-2016E CAGR.

- **Bimeks signs preliminary agreement to acquire Darty-Turkey --** Bimeks will acquire Darty-Turkey, the 4th largest player in the market, for an undisclosed amount. The prospective acquisition will increase Bimeks's market share from 17% to c.21%, making it the 2nd largest player in the domestic market. We expect the deal to be closed by 2Q14, once Competition Board approval is secured and the terms of the agreement are finalised. Of the 28 Darty stores spanning 33K sqm, Bimeks plans to operate 15-20 stores. Assuming 18 stores and 20K sqm selling space, we revised up our selling space estimate by 18%. Incorporating Darty's operations to our valuation results in 8% and 13% upward adjustments to 2014E and 2015E net sales, respectively.

- **116% CAGR in net income for 2013E-2016E --** We revised our net income CAGR estimate from 105% to 116%, owing to the larger scale and the lower working capital needs to arise through this acquisition. We expect the resulting improvement in Bimeks's cash generation to alleviate the Company's interest burden in 2015.

Consolidated Financials and Multiples (TRL)

	2013E	Δ	2014E	Δ	2015E	Δ	2016E	Δ
Revenue	729	47%	1,404	93%	1,656	18%	1,802	9%
EBITDA	37	32%	66	80%	91	37%	104	14%
Net Income*	17	n.m.	19	13%	33	71%	48	48%
P/E	13.7		12.1		7.1		4.8	
EV/EBITDA	6.7		4.8		2.9		2.3	
EV/SALES	0.3		0.2		0.2		0.1	
Div. Yield	0.0%		0.0%		0.0%		2.8%	
FCF Yield	-3.0%		5.7%		21.8%		15.2%	

** 2013E net income includes TRL12mn one-off income*

Ratings & Actions

L/T Rating	BUY (Maintained)
S/T Rating	OUTPERFORM (Maintained)

Target

Target Price	TRL3.1
Upside (Downside)	61%

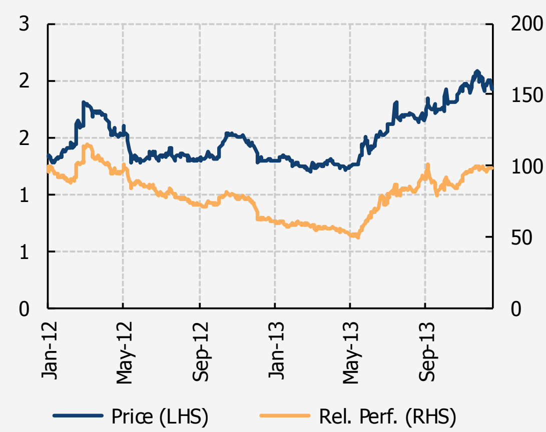
Share Data

Ticker	BMEKS.TI / BMEKS.IS
Close Price	TRL1.93
Current MCap. (TRL/US$ mn)	232 / 113
Number of Shares (mn)	120
Free Float	40%
3m Avg. Daily Turnover (TRL/US$ mn)	4.22 / 2.10

Trading Range (High / Low)

1-month	2.09 / 1.91
1-year	2.09 / 1.20
Ytd	2.09 / 1.20

Performance	Absolute	Relative
1-month	-5%	1%
3-month	12%	17%
1-year	48%	58%
Ytd	50%	61%



as of December 18, 2013
Relatives are against the BIST-100 Total Return Index

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Income Statement (TRL mn)	2012	2013E	2014E	2015E	2016E
Revenues	**495**	**729**	**1,404**	**1,656**	**1,802**
COGS	-406	-604	-1,169	-1,374	-1,487
Gross Profit	**89**	**126**	**235**	**281**	**315**
Operational expenses	-73	-103	-189	-215	-231
EBIT	**16**	**23**	**46**	**66**	**85**
EBITDA	**28**	**37**	**66**	**91**	**104**
Other income, net	2	13	1	1	1
Financial income, net	-15	-15	-23	-26	-25
Profit before tax	3	20	24	41	60
Tax	-1	-3	-5	-8	-12
Reported net earnings	**2**	**17**	**19**	**33**	**48**
Reported EPS	0.02	0.15	0.16	0.28	0.41
DPS	0.00	0.00	0.00	0.00	0.06

Balance Sheet (TRL mn)	2012	2013E	2014E	2015E	2016E
Cash & Equivalents	68	88	49	108	143
Receivables	22	36	69	82	89
Inventories	160	198	391	433	469
Fixed Assets	31	39	74	82	89
Goodwill & Intangibles	50	50	65	62	60
Other Assets	8	8	10	10	11
Total Assets	**339**	**420**	**659**	**777**	**861**
Total Debt	80	103	133	141	149
Payables	134	165	320	395	428
Other Liabilities	8	11	22	24	26
Shareholders' Equity	**115**	**140**	**183**	**216**	**258**
Net Debt	**11**	**16**	**84**	**34**	**6**

Cash Flow Summary (TRL mn)	2012	2013E	2014E	2015E	2016E
Net earnings	2	17	19	33	48
Depreciation	12	14	21	25	19
Δ in WCR	-5	-21	-5	15	-10
CAPEX	0	-18	-29	-29	-26
Dividend paid	0	0	0	0	-7
Rights issue	60	0	0	0	0
Δ in borrowing	32	24	30	8	8
Other cash in/out	-48	4	-75	6	3
Cash generated during the year	53	20	-39	58	35
Cash at the end of the year	**68**	**88**	**49**	**108**	**143**

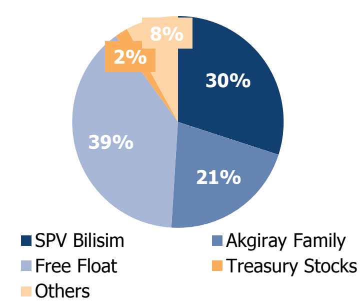
Growth	2012	2013E	2014E	2015E	2016E
Sales	25%	47%	93%	18%	9%
EBITDA	-23%	32%	80%	37%	14%
Net earnings	-44%	665%	13%	71%	48%

Key financial ratios	2012	2013E	2014E	2015E	2016E
ROE	2.1%	13.2%	11.8%	16.3%	20.3%
ROIC	8.2%	12.4%	13.8%	21.3%	25.8%
EBITDA Margin	5.7%	5.1%	4.7%	5.5%	5.8%
Free cash flow margin	3.4%	-0.9%	1.7%	3.9%	2.8%
Net Margin	0.4%	2.3%	1.4%	2.0%	2.7%
Net debt/Equity	0.1	0.1	0.5	0.2	0.0
Net debt/EBITDA	0.4	0.4	1.3	0.4	0.1
ST borrowings/T. borrowings	0.5	0.9	0.6	0.6	0.6
Equity/Total Assets	34.0%	33.4%	27.8%	27.8%	29.9%
Interest coverage	3.1	4.4	3.6	6.1	5.0
Current Ratio	1.56	1.51	1.37	1.38	1.44
Pay-out Ratio	0%	0%	0%	0%	20%

Company Description

Established in 1990, Bimeks has been one of the fastest growing electronics retail stores since the 2000s, with its store count having soared from 4 in the 2000s to 108, and selling space to 93K sqm as of Dec'13. The Company recently acquired Electroworld stores, through which it has doubled its selling space since November 1. Finally, Bimeks announced that it signed a preliminary agreement to acquire Darty's Turkish operations. Inclusive of Darty, we expect Bimeks's market share to reach c.21% in 2014 and the Company to rank 2nd in terms of revenues. Bimeks's majority shareholders are Akgiray family and SPV Bilisim, the latter also owned by the former, while 39% is the free float.

Ownership Structure



24% Upward Revision to our Target Price

Bimeks will acquire Darty's Turkish operations through an asset-based model including the value of inventory and fixed assets at the stores. The value of the inventory will be considered as Bimeks's working capital, as it will be diluted within 2014. Therefore, we think the value of the fixed assets will be the key determinant of the acquisition price. Bimeks will probably receive a discount on the value of the fixed assets, given the expected cash outflows associated with the termination of some contracts. We expect the net acquisition value to be of no major significance, and its impact on the cash flow to be minor. Also worth mentioning is that Darty Group might assume additional expenses associated with store closures.

Incorporating Darty's Turkish operations into our Bimeks valuation model has resulted in a 24% upward adjustment to our target price to TRL3.10/share. Major revisions are summarised below:

- We assume Bimeks will operate 18 Darty stores, spanning around 20K sqm, and close down 10 Darty stores that overlap with Bimeks stores. The store count might ultimately vary by 1-2 stores, based on management preferences.
- Given a rapid expansion in the store count consequent to the prospective Darty acquisition, we expect to see a moderation in organic expansion via store-based-partnerships (SPB; Bimeks's franchise model) network. Hence, we project 5 SPB openings -- down from previously 10 -- annually until YE16.
- We reduced in our model the number of Electroworld franchise stores as of 2014E from 18 to 10, as Bimeks plans to terminate nearly half of the franchise contracts.
- Assuming a revenue/sqm for Darty stores similar to that for Bimeks Mega stores, our net sales estimates for 2014 and 2015 increase by 8% and 13%, respectively.
- For 4Q13, we scale back our one-off income estimate associated with Electroworld acquisition from TRL24mn to TRL12mn, due to a change in management guidance.
- We keep our 2014E gross margin estimate unchanged at 16.7%, in view of a similar gross margin level for Darty-Turkey. For the time being, we opt to remain on the conservative side, although we do recognise that the Company will probably enjoy greater bargaining power with suppliers; and will benefit from the higher share (around 30%) of the wider margin major and small domestic appliances (MDA/SDA) in Darty's total revenues.
- We nudged up our 2014E opex/sales ratio, owing to the possibly higher operating expenses of Darty-Turkey. Thanks to efficiencies through operating leverage on a lower G&A and marketing expenses/sales ratio, we expect opex/sales ratio to normalise by 2015.

- Given the rise in inventory level after the acquisition, we expect a temporary rise in the working capital-to-sales ratio from 9% to 10% in 2014. On the other hand, in 2015, we foresee an improvement in the cash cycle from 40 days to 28 days, with working capital/sales ratio declining to 7%.
- All in all, we maintain our net income estimate for 2014. On the other hand, in 2015, due to presumably less borrowing needs, we expect net debt/EBITDA to decline to 0.4x, thus interest expenses to have less of an impact on net income.

Exhibit 1: Revisions to our Forecasts

TRLmn	2013E			2014E			2015E		
	Previous	New	Δ	Previous	New	Δ	Previous	New	Δ
Nb. of Stores	123	120	-2%	133	135	2%	143	140	-2%
Selling Space (sqm)	101,567	100,067	-1%	105,567	124,067	18%	109,567	126,067	15%
Net Sales	733	729	0%	1,304	1,404	8%	1,469	1,656	13%
EBITDA	37	37	0%	65	66	2%	84	91	9%
Net Income	29	17	-42%	19	19	1%	27	33	19%
Ratios									
Gross Margin	17.3%	17.2%	-0.1 pp	16.7%	16.7%	0.0 pp	17.2%	17.0%	-0.2 pp
Opex/Sales	-14.2%	-14.1%	0.1 pp	-13.2%	-13.4%	-0.2 pp	-13.0%	-13.0%	0.0 pp
EBITDA Margin	5.0%	5.1%	0.0 pp	5.0%	4.7%	-0.2 pp	5.7%	5.5%	-0.2 pp

Source: Burgan Research

Exhibit 2: Summary Revenue Model

TRLmn	2013E*	2014E	2015E	2016E	2017E
Small Stores < 250sqm					
Sales Area (Ksqm)	3,253	3,253	3,253	3,253	3,253
No of stores	18	18	18	18	18
Sqm/store	181	181	181	181	181
Small Revenue	83	88	93	98	103
YoY	-3%	6%	6%	5%	5%
Normal Stores = 250-1000sqm					
Sales Area (Ksqm)	37,851	41,851	43,851	45,851	46,651
No of stores	78	75	80	85	87
Sqm/store	485	558	548	539	536
Normal Revenue	365	495	625	690	747
YoY	53%	36%	26%	10%	8%
Mega Stores > 1,000sqm					
Sales Area (Ksqm)	58,963	78,963	78,963	78,963	78,963
No of stores	24	42	42	42	42
Sqm/store	2,457	1,880	1,880	1,880	1,880
Mega Revenue	230	754	851	898	943
YoY	83%	227%	13%	5%	5%
Total					
Sales Area (Ksqm)	100,067	124,067	126,067	128,067	128,867
No of stores	120	135	140	145	147
Sqm/store	834	919	900	883	877
Breakdown of Sales Area					
Small Stores < 250sqm	3%	3%	3%	3%	3%
Normal Stores = 250-1000sqm	38%	34%	35%	36%	36%
Mega Stores > 1,000sqm	59%	64%	63%	62%	61%
Revenue/Sqm	**12,582**	**11,229**	**12,547**	**13,271**	**13,958**
Aggregate Revenues	**729**	**1,404**	**1,656**	**1,802**	**1,931**
YoY	47%	93%	18%	9%	7%
Retail	678	1,337	1,569	1,686	1,793
Online	40	62	84	114	136
Other	7	5	3	3	1
Breakdown of Revenues					
Small Stores < 250sqm	11%	6%	6%	5%	5%
Normal Stores = 250-1000sqm	50%	35%	38%	38%	39%
Mega Stores > 1,000sqm	32%	54%	51%	50%	49%
Online	6%	4%	5%	6%	7%

Source: Burgan Research

** Electroworld stores consolidated since November 1, 2013*

Burgan Securities - Equity Rating System

12-month Rating:

Our 12-month rating system comprises the following designations: BUY (B), HOLD (H), SELL (S). The absolute upside to target value implied by the current market capitalisation is the main determinant of our rating system. Valuation tools employed most frequently are Discounted Cash Flow (DCF) and international peer group comparison, though other metrics such as historical relative valuation, price to book, return on equity, replacement value are also used wherever appropriate. Our analysts set the fair/target values with a 12-month investment horizon. Comparing the upside in a specific stock with the market's upside (determined through the aggregate upside of our coverage based on free float Mcaps), in addition to taking other yardsticks into consideration, analysts recommend BUY (B), HOLD (H), SELL (S) based on their 12-month total return views.

Sector Rating

Our investment horizon for industry ratings is again 12 months. This rating gives an indication as to how the analyst sees that particular industry for the next 12-month period in terms of growth, profitability, pricing power, competitive dynamics etc. The rating in this category thus reflects our analyst's assessment of the conjunctural outlook for the industry, without involving any specific benchmarks. The ratings employed are **Overweight (OW), Neutral (N), Underweight (UW).**

Overweight (OW): Due to improving sector related fundamentals and/or attractive valuations, the sector index is expected to perform better than the BIST-100 in the next 12-months

Neutral (N): The sector index is expected to perform in line with the BIST-100 in the next 12-months

Underweight (UW): Due to worsening sector related fundamentals and/or expensive valuations, the sector index is expected to perform worse than the BIST-100 in the next 12-months

Short-term Rating:

Our short-term rating system comprises the following designations: OUTPERFORM (OP), MARKETPERFORM (MP), UNDERPERFORM (UP). Considering possible triggers, catalysts, and/or company, sector & market views, we rate the stocks as:

S/T Stock Rating Summary	Relative Return
Outperform (OP)	>=10%
Marketperform (MP)	<+10% & >-10%
Underperform (UP)	<=-10%

Outperform (OP): If 3-month total return is expected to exceed the BIST-100 (sector index if specified) by more than 10%

Marketperform (MP): If 3-month total return is expected to be in line (+/- 10%) with the BIST-100 (Peerperform if sector index is specified)

Underperform (UP): If 3-month total return is expected to be below the BIST-100 (sector index if specified) by more than 10%

To have a more balanced distribution of ratings, Burgan Securities has requested that analysts maintain ***at least 20% of their ratings as Underperform*** *and* ***no more than 25% as Outperform****, subject to change depending on market conditions.*

Other Qualifiers Utilised:

NR: Not Rated

NC: Not Covered

UR: Under Review

Market Call

Our equity **market call** has an investment horizon of 3-12 months. **Our market calls are** BUY, NEUTRAL, SELL.

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Burgan Securities' goal is to be the investment firm of choice in Turkey through exemplary service and product quality, with a view to becoming a regional player.

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