Bimeks

January 19, 2015

Efficient Retailing

We are reaffirming our BUY rating on Bimeks (BMEKS TI) with a price target of TL2.62/share, implying a potential upside of 23%. The stock trades at 12% EV/EBITDA discount to global peers according to 2015 multiples. Key operating areas to watch as catalysts are working capital (WC) management and margin evolution.

Change in product mix following acquisitions should help preserve margins. The acquired big box stores can house higher margin white goods and home appliances (20% and 35% respectively), while the share of these products reached 12% of total sales in 2014 up from 4% of 2013. This already helped margins to improve by 17 bps to 19.4% and should help Bimeks to cushion margin contraction going forward.

Superior WC management. Operating expenses and WC are kept under check with the support of new in-house developed software used in operations. Inventory turnover is improving gradually through a new in-house procurement and inventory management software, and fell to 139 days as of 9M14 from 146 in 9M13. End of year-2013 WC to sales stood at 14%, while our expectation is for a gradual decline to 12% by 2017.

Future top-line growth should be supported by online retailing. Online sales stood at TL68mn as of 9M14, at 7.7% as a share of revenues. The management aims to raise this business to 15% of total revenues by 2019. Accordingly, we expect to see CAGR of 32% for 2014-2019.

Relatively high debt is a burden on the bottom line. Net debt to equity stood at 1.3x in 9M14 and we estimate a gradual decline to 0.9x by 2017 on better WC management and lower capex. The debt creates gyrations on the bottom line.

Estimates (TLmn)	2012	2013	2014E	2015E	2016E
Revenue	495	697	1,290	1,523	1,698
EBITDA	7	10	65	75	78
Net Income	2	12	8	12	15
Gross Margin	18.0%	17.1%	18.2%	18.0%	17.9%
EBITDA Margin	5.6%	3.9%	5.1%	4.9%	4.6%
Net Income Margin	0.4%	1.7%	0.6%	0.8%	0.9%
P/E (x)	84.0	15.4	34.0	21.3	17.3
P/BV (x)	1.3	1.7	1.9	1.7	1.6
EV/EBITDA (x)	6.0	9.3	6.4	5.5	5.3
EV/Sales (x)	0.3	0.4	0.3	0.3	0.2
ROE	1.7%	9.0%	5.5%	8.0%	9.1%
Dividend yield	0%	0%	0%	0%	0%

Source: Bimeks, Gedik Investment

BUY

Company Update

Stock Data

Sector	Consumer Electronics
Reuters / Bloomberg code	BMEKS.TI / BMEKS.IS
Price (TRY)	2.13
Target Price (12M, TL)	2.62
Potential Return	23%
52-week range (TL)	1.44-2.19
Market Cap (TLmn)	256
Floating Market Cap (TLmn)	100
Avg volume (3-mnth, TLmn)	4.2
Shares out (mn)	120
Effective Free Float	39%

Performance	1M	3M	6M	12M
Absolute	5%	17%	33%	21%
Relative to BIST100	1%	4%	26%	-9%

Shareholder Structure

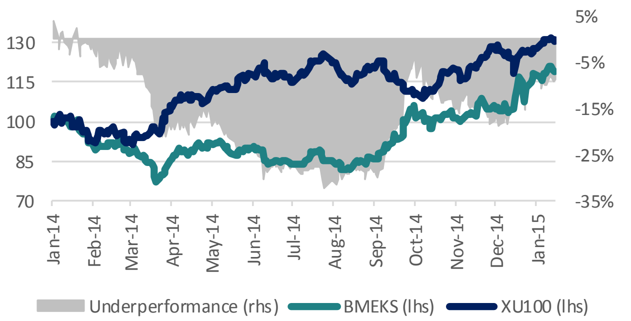
SPV Bilisim*	32%
Mehmet Murat Akgiray	19%
Ömer Akgiray	2%
Others	10%
Free Float	37%

**SPV Bilişim is owned by Akgiray Family*

Company description

Bimeks is a pioneer in Turkey's technology retail sector, offering a wide spectrum of products including PCs, mobile phones, small home appliances, and white goods. Bimeks' operations are carried out by 83 company-owned and 57 franchised stores. Bimeks uses a multi-channel model combining online and offline sales. Market share is estimated to have reached 17% in 2014, boosted by the doubling of revenues through the acquisitions of Electroworld and Darty

Price performance



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Income Statement (TLmn)	2012	2013	2014E	2015E	2016E
Revenues	**495**	**697**	**1,290**	**1,523**	**1,698**
COGS	-406	-577	-1,056	-1,249	-1,394
Gross Profit	**89**	**119**	**235**	**274**	**304**
Operating Expenses	-73	-108	-193	-226	-253
Opertaing Income	**16**	**12**	**42**	**48**	**51**
EBITDA	**28**	**27**	**65**	**75**	**78**
Other non-operating income, net	4	-6	-3	-1	1
Profit/loss from subsidiaries	0	0	0	0	0
Financial income, net	-17	-16	-32	-35	-37
Profit Before Tax	3	14	8	12	15
Net Income After Taxes	2	12	8	12	15
Minority interest	0.0	0.0	0.0	0.0	0.0
Reported net income	**1.9**	**12.2**	**7.6**	**12.2**	**15.0**
Reported EPS	0.02	0.10	0.06	0.10	0.12

Notes

Due to inorganic growth via acquisitons, we estimate revenue growth of %85 YoY in 2014. EBITDA is improving as well as net income following the acquisitons, reaching TL64mn and TL7.6mn respectively.

Growth	2012	2013	2014E	2015E	2016E
Sales	25%	41%	85%	18%	11%
EBITDA	-23%	-3%	143%	14%	5%
Net earnings	-52%	536%	-37%	60%	23%

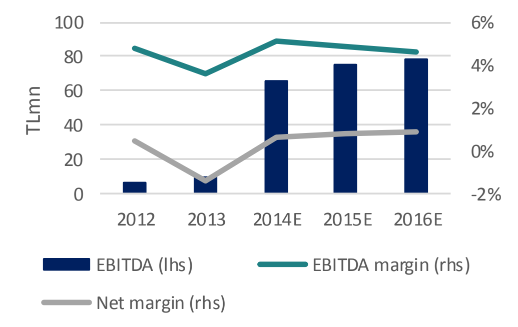
Balance Sheet (TLmn)	2012	2013	2014E	2015E	2016E
Cash and Marketable Securities	68	70	60	62	58
Account Receivables	22	25	35	42	47
Inventory	160	295	411	455	500
Plant, property & equipment, net	31	57	67	72	72
Intangible Assets	50	50	47	47	47
Other Assets	2	24	30	30	30
Total Assets	**338**	**522**	**650**	**708**	**753**
Financial Loans	80	145	223	217	211
Account Payables	134	224	260	308	344
Other Liabilities	3	6	11	13	15
Minority Interest	0	0	0	0	0
Shareholder's Equity	**115**	**135**	**139**	**152**	**164**
Net Debt	**11**	**75**	**162**	**155**	**153**

Notes

During a period of heavy working capital and capital expenditure needs related to the newly acquired stores from Darty and Electroworld, Bimeks issued two bonds worth TL100mn in 2014. We estimate the reduction in debt to equity ratio to start in 2015 as cash flow improves.

Cash Flow Summary (TLmn)	2012	2013	2014E	2015E	2016E
Profit before tax	3	14	8	12	15
Depreciation	12	15	23	27	27
Δ in WCR	5	49	89	3	14
Taxes	0	0	0	0	0
CAPEX	6	14	31	29	23
Dividends paid	0	0	0	0	0
Rights Issue	60	0	0	0	0
Δ in borrowing	32	66	58	-6	-6
Other cash in/out	-92	-21	-14	-16	-15
Free Cash Flow	**-34**	**-97**	**-64**	**31**	**28**

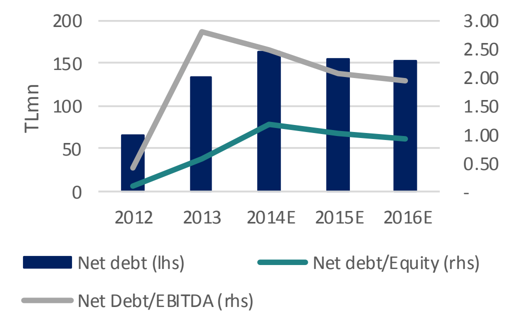
Profitability & Margin Trends



Ratios	2012	2013	2014E	2015E	2016E
ROE	1.7%	9.0%	5.5%	8.0%	9.1%
EBITDA margin	5.6%	3.9%	5.1%	4.9%	4.6%
Net Margin	0.4%	1.7%	0.6%	0.8%	0.9%
Net debt/Equity	0.10	0.56	1.17	1.02	0.93
Net debt/EBITDA	0.41	2.80	2.48	2.07	1.95
ST borrowings/T. Borrowings	73.6%	95.3%	76%	77.7%	78.8%
Equity/Total Assets	34.1%	25.8%	21.4%	21.4%	21.7%
Leverage	1.9	2.8	3.5	3.6	3.5
Interest coverage	1.9	1.1	1.5	1.6	1.8
Current Ratio	1.6	1.1	1.4	1.4	1.4
Cash dividend pay-out	0%	0%	0%	0%	0%

Source: Bimeks, Gedik Investment

Solvency



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Valuation

Our DCF model results in a 12M target value for Bimeks at TL315mn (TL2.62/share), which implies 23% upside potential. In our valuation, we assigned equal weight to the DCF and international peer comparison analysis. The peer comparison calculation consisted of 2015 EV/EBITDA and P/E multiples.

We forecast a revenue CAGR of 10% in 2015-2023 and a 5% terminal growth rate. We expect store growth to slow down gradually, from 10 additional stores in 2015 to 3 in 2018, with 1 addition after 2019. We expect new store additions to be franchise stores. Our calculations for store area growth increase parallel to new store openings, and estimate that each new store addition will have 795sqm of sales area.

Our EBITDA margin estimate shows a gradually decline to 4.1% in 2023 from 5.1% in 2014. This is a crucial item to gauge as it will be one of the key determinants in our hope for better cash flow negation. WC needs should decline as number of franchised stores increases and the multi-channel approach reduces WC requirements.

Due to a TL8.6mn tax shield, the company will begin tax in 2017, and we expect a 20% tax rate for the following years.

By our estimates, cost-of-equity stands at 14%, which was derived from a risk-free rate of 8.5%, and an equity-risk premium of 5.5%. Our beta is 1.0x and terminal growth rate is 5%. WACC is 10.6%.

Exhibit 1: DCF Model

Methodology	Implied Value	Weight	Contribution
Discounted Cash Flow	359	50%	180
International Peer Comparison	210	50%	105
Implied Value for Bimeks			**285**
12M Target Value:			**315**
Upside Potential			**23.1%**
Current Price, TL			2.13
12M Target Price			**2.62**

Source: Bimeks, Bloomberg, Gedik Investment

Exhibit 2: Valuation Summary

TLmn	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	1,290	1,523	1,698	1,857	2,019	2,186	2,360	2,546	2,737	2,940
Growth%	85%	18%	11%	9%	9%	8%	8%	8%	8%	7%
EBITDA	**65**	**75**	**78**	**84**	**89**	**95**	**102**	**109**	**115**	**121**
Growth%	143%	14%	5%	7%	7%	7%	7%	7%	6%	6%
EBITDA Margin	**5.1%**	**4.9%**	**4.6%**	**4.5%**	**4.4%**	**4.4%**	**4.3%**	**4.3%**	**4.2%**	**4.1%**
EBIT	42	48	51	57	62	68	75	81	87	93
Unlevered Taxes	0	0	0	-2	-5	-7	-8	-9	-10	-9
NOPAT	**42**	**48**	**51**	**54**	**57**	**61**	**67**	**72**	**77**	**83**
NOPAT Margin	3.3%	3.1%	3.0%	2.9%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Capital Expenditure	31	29	23	24	25	27	27	28	29	29
Depreciation	23	27	27	27	27	27	27	27	28	29
Change in Net WC	89	3	14	17	17	17	15	16	16	16
Commissions on Credit Card	10	11	13	14	15	16	17	19	20	22
Free Cash Flow	**-64**	**31**	**28**	**26**	**26**	**29**	**34**	**37**	**40**	**45**
WACC:		10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Discount Factor:		0.95	0.86	0.78	0.71	0.64	0.58	0.52	0.47	0.43
DCF		30	24	21	19	18	19	19	19	19
Sum of DCF	**189**									
Perpetuity growth rate	5%									
Terminal Value	780									
PV of Terminal Value	**333**									
Enterprise Value	**522**									
Net Debt (Cash) (2014E)	162									
Present Value	**359**									

Source: Gedik Investment

Exhibit 3: Peer Comparison

	EV/EBITDA			P/E			Mcap	EV
	2014E	2015E	2016E	2014E	2015E	2016E	(USDmn)	(USDmn)
America								
ARROW ELECTRONICS INC	7.0x	6.3x	5.6x	9.4x	8.8x	8.3x	5,373	7,348
BEST BUY CO INC	6.8x	5.9x	5.4x	21.2x	16.2x	14.4x	13,711	12,212
CONN'S INC	n.a.	n.a.	n.a.	7.0x	9.5x	8.6x	664	1,354
INGRAM MICRO INC-CL A	5.5x	4.6x	3.9x	10.2x	8.6x	7.4x	4,075	4,705
Average	**6.4x**	**5.6x**	**5.0x**	**12.0x**	**10.8x**	**9.7x**		
Europe								
DARTY PLC	4.2x	4.0x	3.4x	17.8x	14.2x	10.8x	567	926
DIXONS RETAIL PLC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ESPRINET SPA	3.6x	2.9x	1.8x	11.6x	10.6x	9.0x	368	419
M VIDEO	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average	**3.9x**	**3.4x**	**2.6x**	**14.7x**	**12.4x**	**9.9x**		
Asia								
K'S HOLDINGS CORP	7.6x	6.7x	6.4x	10.4x	9.7x	9.4x	1,554	2,499
UNITED ELECTRONICS CO	11.1x	9.7x	8.8x	14.5x	12.7x	11.7x	639	635
GOME ELECTRICAL APPLIANCES	-1.9x	-2.0x	-2.5x	12.7x	11.3x	9.7x	2,713	2,974
JB HI-FI LTD	7.5x	7.5x	7.0x	13.1x	12.7x	12.1x	1,331	1,460
LOTTE HIMART CO LTD	10.0x	8.3x	7.2x	12.7x	10.3x	8.8x	1,240	1,936
Average	**6.9x**	**6.0x**	**5.4x**	**12.7x**	**11.4x**	**10.3x**		
Turkey								
BIMEKS BILGI ISLEM VE DIS TI	6.1x	5.2x	3.9x	30.3x	14.1x	7.3x	111	188
TEKNOSA IC VE DIS TICARET AS	8.7x	5.8x	4.1x	72.0x	24.1x	14.5x	441	392
Average	**7.4x**	**5.5x**	**4.0x**	**51.2x**	**19.1x**	**10.9x**		
Median	**6.6x**	**5.6x**	**4.5x**	**13.7x**	**11.9x**	**10.1x**		
Emerging Markets peers (excluding BMEKS)	8.1x	7.1x	6.7x	12.9x	12.0x	10.7x		
Premium (discount) to Emerging Markets peers	**-25%**	**-27%**	**-42%**	**135%**	**18%**	**-32%**		
Global Peers- Median (excluding BMEKS)	7.0x	5.9x	5.4x	12.7x	10.9x	9.6x		
Premium (discount) to Global Peers	**-12%**	**-12%**	**-28%**	**138%**	**29%**	**-24%**		

Source: Bloomberg, Gedik Investment

Main Arguments

We resume our coverage of Bimeks with the BUY recommendation and a target price of TL2.62/share, implying 23% upside potential. The company is one of the leading electronics retailers in Turkey and its recent Electroworld and Darty acquisitions have doubled revenues in 2014 over 2013 and boosted market share to 17% from 8.6% in 2013. In terms of profitability, Bimeks stands out with its operational superiority; OPEX/sales of 15%, is lower by 100bps than Teknosa, its main listed competitor. Following recent acquisitions, the company's main focus is profitability, which we expect will continue to keep Bimeks' EBITDA margins above its competitors over the long run and generate of net income of TL18mby 2017. The company trades at 2015E 5.2x EV/EBITDA and 14.1x P/E multiples compared to 5.9x EV/EBITDA and 10.9x P/E multiples of its global peers, suggesting a 12% EV/EBITDA discount and 29% P/E premium.

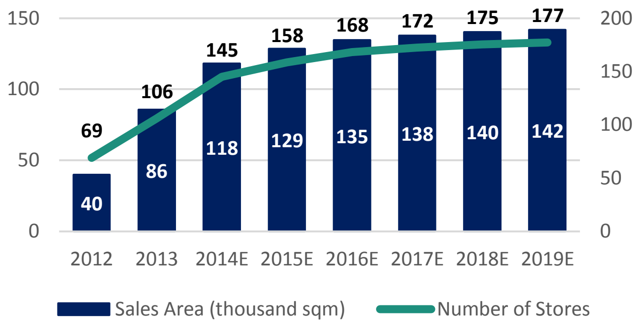
Sales growth after the acquisition of Darty and Electroworld pumped market share up to 17%. Bimeks completed the acquisition of Electroworld as of Nov13, adding 15 big-box and 8 standard stores with a total sales are of 45k sqm. The Darty acquisition added 13 big-box and 9 standard stores with sales area of 26k sqm. Following the acquisitions, net sales area almost tripled to reach 114k sqm and net sales area addition stands at 70k sqm YoY. As of 9M14, 45 of its 141 stores are big-box stores (all but one owned by Bimeks) and 96 are standard and smaller stores (57 franchised). Accordingly, in 3Q14, 7 new additions and 2 closures took place over the previous quarter. In line with the company strategy of building a presence in new cities, the company increased its exposure by 4 more cities and now serves 58. We estimate aims to reach 158 stores in 2015. We then expect the number of stores to reach 168 in 2016, also expecting new additions to be franchised, which are smaller in size (our estimate is 795sqm on average for the new additions) compared to big-box stores. Accordingly, we estimate 2014 revenues to have grown by 85% to TL1.30bn and market share to now stand at 17% (up by 8.4% over 2013). We forecast 2015 and 2016 revenues at TL1.29bn and TL1.5bn.

Exhibit 4: Bimeks before and after the acquisitions

	Bimeks bef. Acquisition	EW stores acquired	Darty Stores	3Q14	Gedik 2014E	Management Guidance 2014
Big Box Stores	10	15	13	45	45	na
Standard Stores	73	8	9	96	103	na
Total Stores	83	23	22	141	148	150
Sales Area	44,781	43,000	26,000	114,452	118,000	132,000
Revenues (TL mn)	437	443	250	875	1.3	1.4
Market Share	8.6%*	na	na	na	17%	15%-20%

*Year-end value.

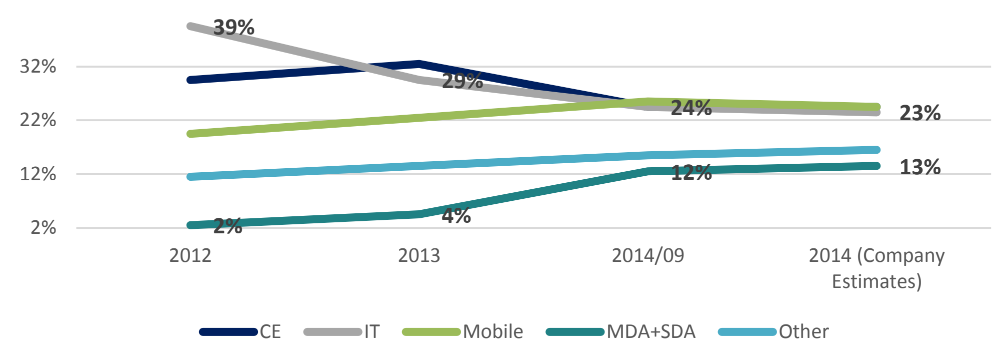
Exhibit 5: Sales area vs number of stores



Source: Bimeks, Gedik Investment

The market and operating impact of Darty and Electroworld acquisitions:

Exhibit 6: Bimeks product mix (revenue breakdown)



Source: Bimeks, Gedik Investment

a) Sales increasing among white goods, home appliances, personal care, and accessories product segments, which have higher gross margins relative to others groupings: The acquired big-box stores can house more white goods and home appliances, which require a larger selling/display space. The share of consumer electronics (such as cameras and TVs) and IT products (such as laptops and PCs) has declined to 24% of sales from 32%, while the share of MDA+SDA (white goods and home appliances) has increased to 12% from 4% of sales following the change in product mix. Going forward, we believe the product mix will only change parallel to sector dynamics, meaning a decline in office equipment, photography (shown as other on exhibit 3), and IT, while the growth should be concentrated in mobile and SDA segments. Gross margins for white goods and home appliances were 20% and 35%, respectively, while the mobile phone margin was 10-15% in 2014.

b) Increasing market share: As mentioned, with its acquisitions, Bimeks' market share was estimated to have reached 17% in 2014, up from the 8.6% in the previous year. We do not expect any significant changes in market share going forward. Elsewhere, the management is not considering further acquisitions in the foreseeable future. However, over the longer term there is an interest in regional expansion to the Middle East and Africa.

c) Acquired stores expected to operate more efficiently, while we estimate a 4.9% EBITDA margin in 2015: In 2014, the acquired stores are operating more efficiently under Bimeks' management due to the resizing and reshuffling of its stores as it reduced the area of its big-box stores and closed one other such store in Ankara. Additionally, Bimeks' better WC management and ability to bring down operating costs for these stores resulted in an improvement in the gross margin by 18pps and operating margin by 15.5pps in 2014 following the acquisitions.

Improving free cash flow on lower WC and less capex. Capital expenditure was estimated at TL25mn in 2014 without the acquired stores according to our calculations. We estimated the additional capex need in our model by using 25% of the initial cost of opening a new store, as the remodeling cost per sqm is 1/4 that of opening a new store. For new stores and maintenance we have added the necessary amount. New stores cost TL1,000/sqm, while maintenance costs TL100/sqm. Our capex expectation for 2015 and 2016 stands at TL29mn and TL23mn, respectively. Capex to sales should decline from 2.7% in 2014 to 1.4%% in 2016, and 1.2% by 2019.

Exhibit 7: Declining CAPEX (% of revenues)

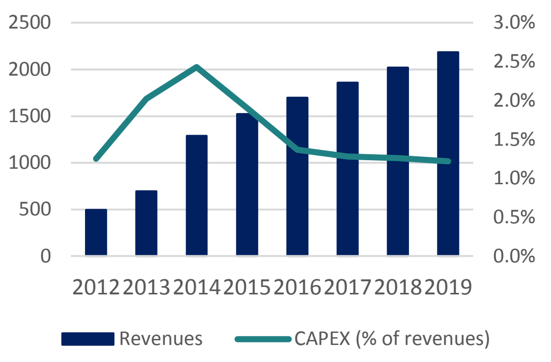
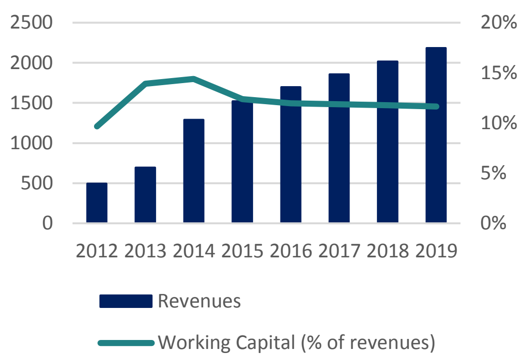


Exhibit 8: Declining WC need

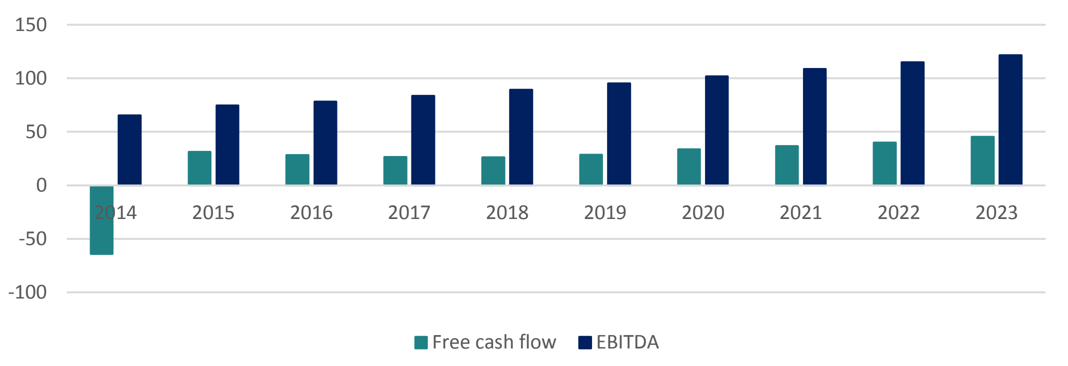


Source: Bimeks, Gedik Investment

We estimate a continuing decline in WC/revenues on better inventory management following the tripling of sales area after the acquisitions. Additionally, we expect a continued decline in the inventory turnover ratio due to the recent implementation of a new software system that uses artificial intelligence for inventory optimization. According to the management, the new in-house developed software's benefits will be reflected in 2015 following its full implementation as of 3Q14. The new software uses algorithms for supply and demand management, such as advising pricing based on price elasticity, product replacement times, and supply chain management based on regional characteristics. All in all, we anticipate a gradual drop in the inventory turnover to 131 days in 2017, from 142 days in 2014. Accordingly, we expect WC to revenues of 12% in 2017 from 14% in 2014.

As a result, lower WC and less capex, should assist in a solid recovery going forward.

Exhibit 9: FCF and EBITDA (TLmn)

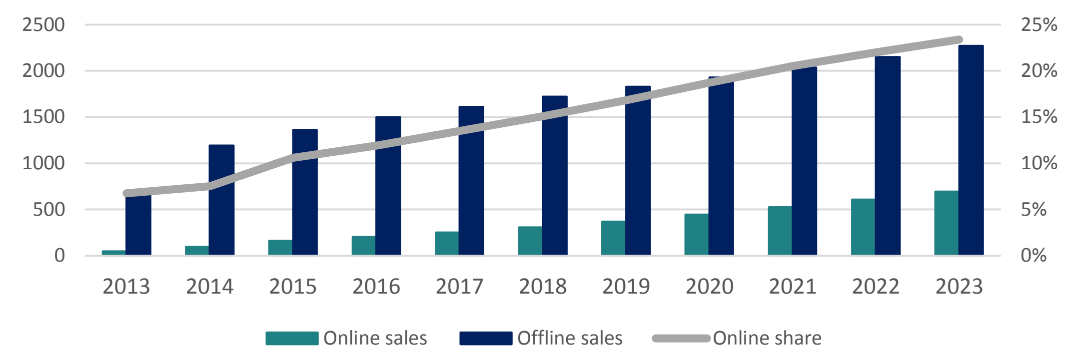


Source: Bimeks, Gedik Investment

Online revenue growth should continue to surpass offline sales, a burden on margin expansion.

We expect top-line enhancement of 13% CAGR in 2014-2017. During this period, we estimate online sales growth of 38% and offline of 10%. Hence, the share of online sales should grow from 8% in 2014 to 14% in 2017, and further to over 20% after 2020. Online sales have lower gross margins (15%) on pricing versus offline sales (18%). Hence, the challenge is to raise the margins of a business model that already operates on thin margins. Thus, the success of the aforementioned new WC tools and acquisitions will play a key role in cash flow generation capability.

Exhibit 10: Online vs offline sales



Source: Bimeks, Gedik Investment

Exhibit 11: Online share vs gross margin

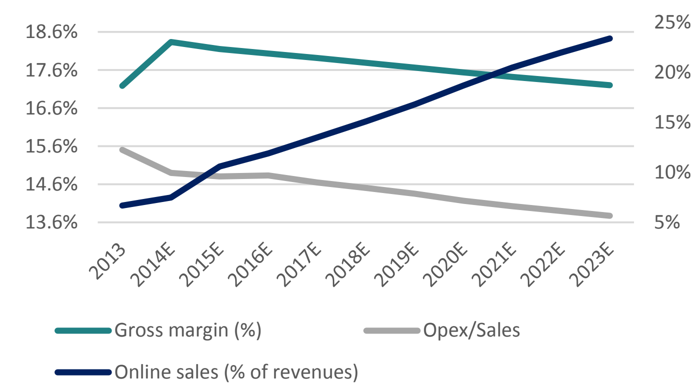
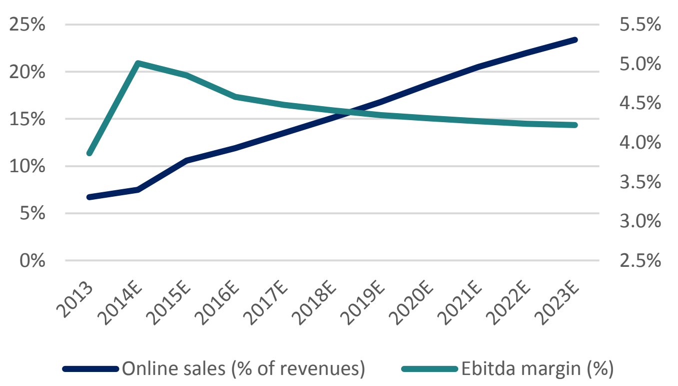


Exhibit 12: Opex/sales vs ebitda margin



Source: Bimeks, Gedik Investment

Relatively high debt is a burden on the bottom line, but should decline going forward.

The net debt/equity ratio was 1.29x in 9M14 and net debt is expected to decline by 5% in 2015. 75% of the debt is short term to finance WC needs, while the rest was withdrawn to finance acquisitions. Most of the long-term debt is lira denominated, while 58% of it has an average maturity of less than 1 year. Long-term debt consists of two bonds: a TL55mn bond with a 2-year maturity (benchmark +4% coupon rate) and a TL45mn bond with a 3-year maturity (benchmark +4.5% coupon rate). The FX open position stood at TL47mn as of 9M14. We expect the net debt/equity ratio to come down to 0.90 by 2017 on a better WC cycle, which we mentioned earlier.

The franchise model, store-based partnership (SBP).

Bimeks utilizes a store-based partnership model to penetrate particularly riskier and smaller regions where local business know-how is required. As a result, Bimeks shifts all resources toward management of its mega stores in key regions such as Istanbul, where operating a store requires on-hand management. Under the SPB model, inventory belongs to Bimeks and restocking is done through Bimeks' ERP system, which tracks all Bimeks stores regardless of type. The process results in efficient management of OPEX costs for the company. The initial set up costs of a franchised store belongs to franchisee and costs roughly TL700k/store, while Bimeks receives a one-time brand value fee of TL100k from the SBP. Maintenance capex and any costs related to operations (such as rent, utilities, and employees) is the responsibility of the SBP, which creates no additional capex for Bimeks. All sales from the store belong to Bimeks, and the SBP is paid 6-8% of the store's monthly revenues by Bimeks, as an OPEX expense. Parallel to the strategy of having at least 1 store in every city of Turkey, we expect Bimeks' new store additions to be mostly store-based partnerships. Currently, 57 stores are store-based partnerships, and we estimate 11 new additions in 2015 and 10 in 2016. Going forward, we expect annual store additions to be minimal as growth will shift toward e-retail. Accordingly, we expect franchised store growth of 29 stores between 2015 and 2019, followed by 1 store per year going forward.

Superior margins compared to peers

Bimeks has shown strong margin performance in 2014, at the same time gaining market share in offline retail from its acquisitions. However, online sales growth faces tough competition from its main competitor Teknosa.

Exhibit 13: Bimeks vs Teknosa

		Gross margin	EBIT margin	EBITDA margin	OPEX/Sales	Market cap	Stores	Sales Area (sqm)	Market Share	Share of online sales
2012	Teknosa	19.9	3.9%	4.9%	15.9%	829	283	141,000	34%	2.2%
	Bimeks	18.0	3.3%	5.6%	14.7%	155	69	40,000	8%	7.0%
2013	Teknosa	18.7	3.4%	4.4%	15.3%	1,403	294	166,000	35%	4.1%
	Bimeks	17.1	1.7%	3.9%	15.5%	223	106	96,000	9%	5.4%
2014	Teknosa	18.6	-0.3%	2.3%	17.5%	1,008	300	177,000	37%	9.6%
	Bimeks	19.4	3.2%	5.2%	16.2%	259	140	115,000	17%	7.7%

Source: Bimeks, Gedik Investment

Investment Risks

Regulatory risk: anti-dumping tax on electronics, credit card installments, and more

There is to be frequent intervention by the government, which tries to balance macro risks concerning the current account. While we appreciate these efforts, they also create operational uncertainties for electronics retailers.

The details of a new antidumping scheme is expected to be announced by March 2015. The Minister of Economic Affairs, Nihat Zeybekci, stated in December 2014 that the government's decision will not cause an increase in mobile phone prices. Minister Zeybekci repeated that officials are working on ways to reduce the import of products that can be produced domestically in order to support the domestic production scene. Accordingly, a decision on the import of consumer electronics goods including home appliances, mobile phones, tablets, and computers will be concluded by March 2015.

In February 2014, the state introduced a 9-month installment limitation on credit card purchases and zero installment limitation on mobile phones, food, and jewelry purchases. In October 2014, the zero limitation on jewelry was lifted partially to 4 months, raising expectations for a similar development on mobile phones.

Weaker Lira

Usual consumer confidence and spending dilemmas apart, a weaker lira can hurt margins as products are priced with FX, mostly in USD.

Competition and execution risk

By end 2014, Teknosa had a 37% market share, while the remainder belonged to Bimeks at 17%, Media Markt, Vatan, and Gold. Accordingly, Teknosa dominates the market with 300 stores and 177k sqm of net sales area versus 140 stores and 115k sqm net sales area for Bimeks. With a widespread offline presence from all players in Turkey, there is limited room to expand such operations, and Bimeks faces tough competition in the online markets.

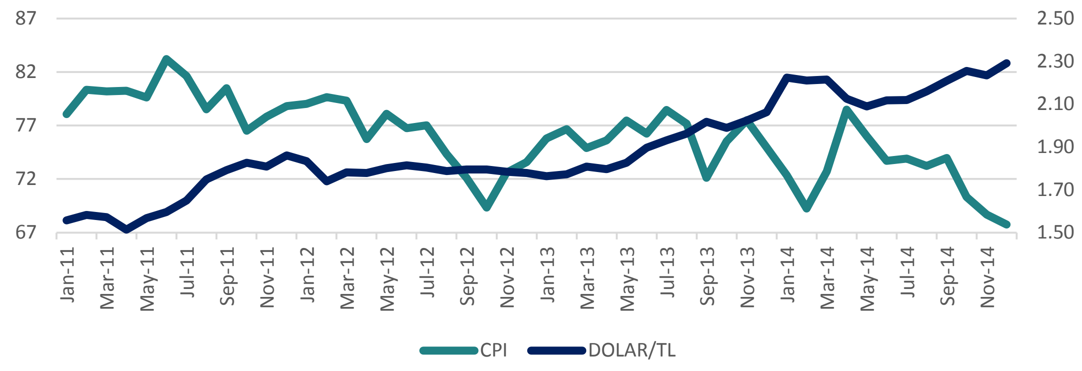
As mentioned in the previous sections of the report, we expect online sales growth to remain strong and surpass offline, creating downward pressure on margins. Additionally, it is crucial for the newly implemented software system to meet expectations with regard to supply and demand management.

Sector Outlook

Consumer Confidence Index for November 2014 reached lowest level in 3 years.

The index declined to 68 in December, continuing the sharp declining trend since April. Responsible for the decline was the probability of saving and the unemployed expectation. The decline was 9% compared to December 2013.

Exhibit 14: Consumer confidence index vs USD/TL



Source: Bimeks, Gedik Investment

Appreciation of USD/TL parity since November 2013 was responsible for the negative effect on consumer confidence.

The personal credit card balance declined sharply following limitation on credit cards as of February 2014.

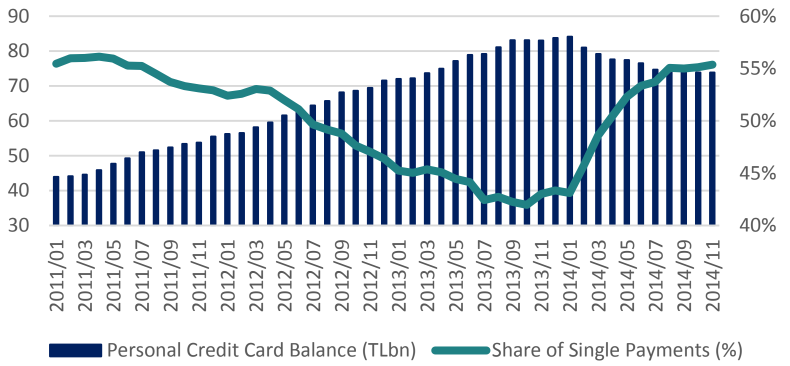
There is a limitation on credit card installments to zero months for mobile phones and 9 months for all other electronics products.

Personal credit card balances in the months of February, March, and April showed declines on a MoM basis. As of 11M14, an 11.6% decline in credit card balances was recorded since the beginning of the year. Accordingly, cumulative personal credit card spending this year as of 11M14 has been 1.2% below the previous year's level, and stands at TL848.5bn.

The share of single credit card payments showed an increase to 55% in 11M14 from the prior 40-45% level in 2013, following the introduction of the limitation. There are no tangible developments regarding the possible reintroduction of installments.

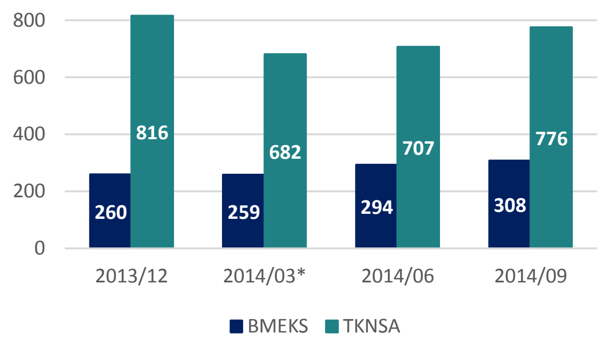
Accordingly, technology retailers faced a sharp decline in sales following the limitation of credit card installments in 1Q14. In line with sector dynamics, Bimeks' mobile phone sales were down by 23% in 1Q14, which resulted in flat sales compared to the previous quarter (excluding the additional sales from Electroworld). However, they jumped back up to previous levels after installments were partially reintroduced in April 2014. The company successfully managed to offset the aforementioned volume deterioration in YtD terms as its mobile sales volume remained flat compared to the previous year. Teknosa was hit harder by the limitation as its sales declined by 16% over the previous quarter. Both retailers' sales showed slight improvements in the following two quarters as can be seen in exhibit 17.

Exhibit 15: Monthly personal credit card balance



Source: *Bimeks, Gedik Investment*

Exhibit 16: Sales – Teknosa vs. Bimeks

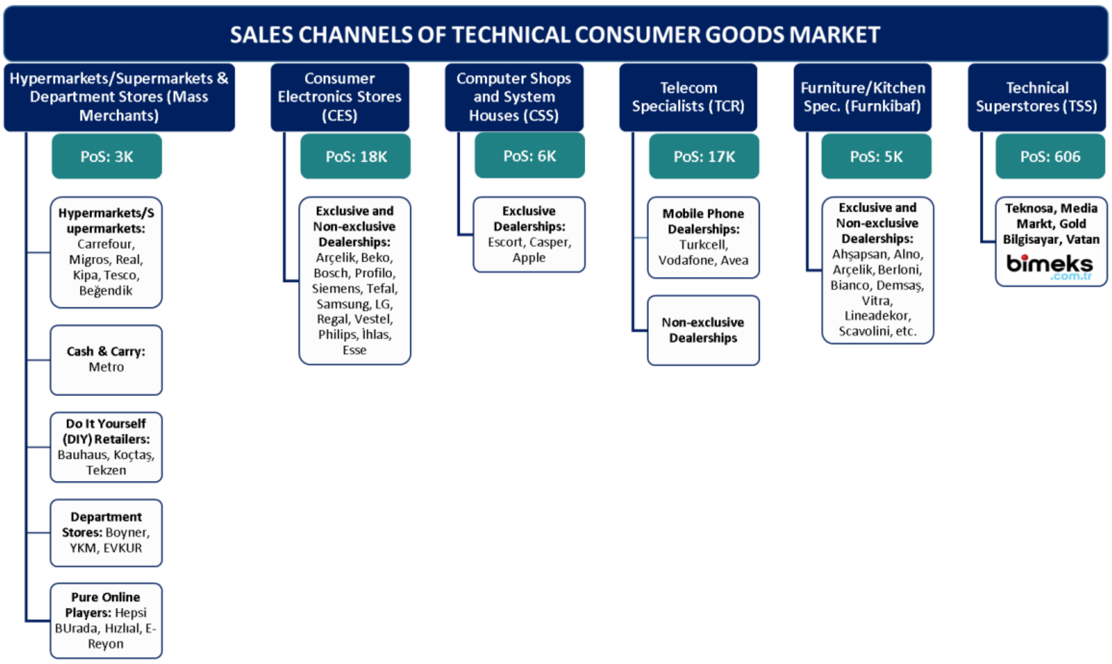


**2014/3 sales for BMEKS excludes Electroworld sales*

Sales channels of technical consumer goods market.

Technical consumer goods market primarily consists of telecom specialists (mobile phone dealerships) and consumer electronics stores. Bimeks falls under the technical superstores segment with its big-box stores along with the Teknosa, Media Markt, Gold, and Vatan.

Exhibit 17: Sales channels of technical consumer goods market

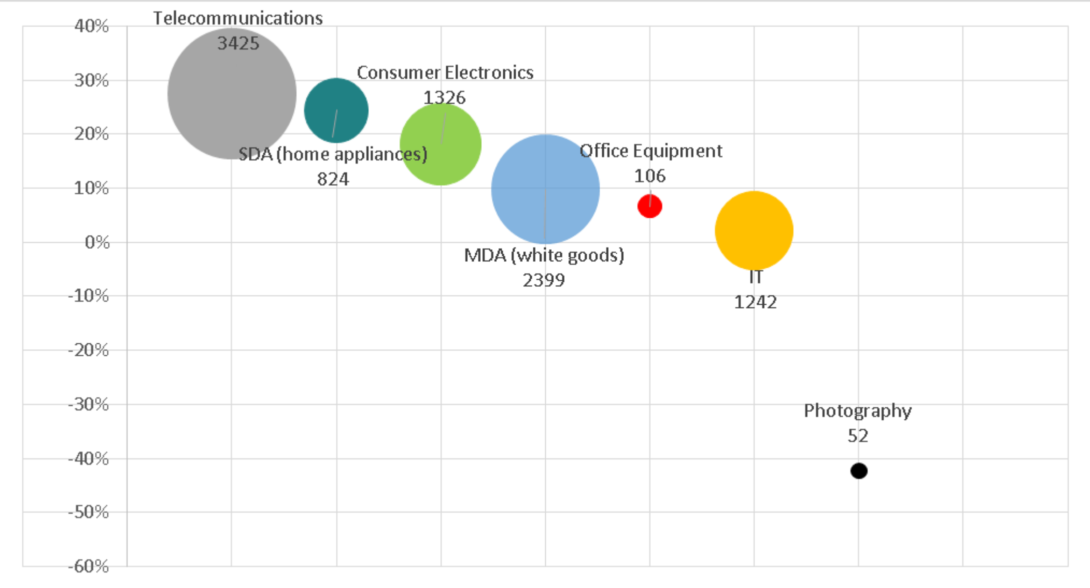


Source: *Bimeks, Gedik Investment*

Technical consumer goods (TGC) market grew by 14.8% in 3Q14.

According to the results of GfK for 3Q14, the Turkish TGC market grew by 14.8% in 3Q14 YoY (16.1% growth YtD) and the overall market amounted to TL9.4bn.

Exhibit 18: Market share and YoY growth of technical consumer goods market



Source: Gedik Investment, GfK Turkey

Highest growth in Telecommunications and SDA (small home appliances) sectors.

The telecommunications sector experienced value growth of 25.1% in 3Q14 compared with 3Q13, and thus became the highest-growing sector. New smartphone launches by both local and global brands was the main driver.

The small domestic appliances (SDA) sector ended 3Q14 with 24.4% over 3Q13, and achieved a greater turnover of TL824mn. Compared to the other six sectors, SDA reported the highest growth in value after the telecommunications sector. The largest contributor to growth was cylinder bagless vacuum cleaners, irons, and hand blenders. On the other hand, the personal care category continued to lose share in the sector. The effect of increasing prices due to exchange rates, and the rising tendency for premium segment products continued in 3Q and the sector continued its upward trend in both unit and sales volume.

The IT sector experienced 2.1% growth in value in 3Q14 YoY, while on QoQ terms there was a 7% decline in 3Q14. The seasonal campaigns in September were not enough to limit the decline. On a volume basis, both laptops and PCs showed double-digit declines. The limitation on credit card installments added to the declines.

The office equipment and consumables sector, where printers make up the majority of value, experienced 6.6% growth YoY in 3Q14.

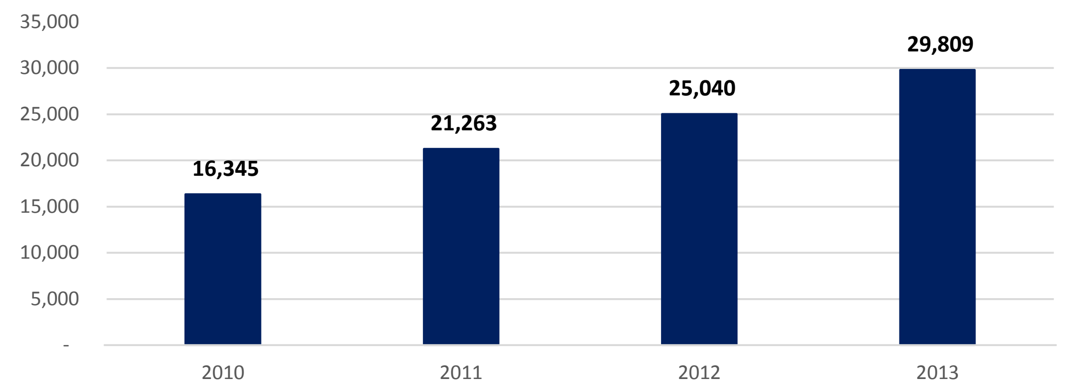
The major domestic appliances (white goods) sector had a growth rate of 12% in 3Q14 over 3Q13. All products showed positive growth, with the cookers segment showing the highest rate. Prices in lira are increasing due to the exchange rate. As a result, the growth in value is getting larger than the growth in unit sales compared to 3Q13.

The consumer electronics industry displayed 20% growth in 3Q14 over 3Q13. The main driver was panel TVs as the market share of large-screen TVs continues to increase with 60% growth, while newly introduced ultra high-definition TVs rose above 5%.

The photography sector continued its decline with a 50% reduction in 3Q14 over 3Q13.

Consumer electronics segment retail sales reached TL29.8mn in 2013.

Exhibit 19: Consumer electronics retail sales (TLmn)



Source: Gedik Investment, GfK Turkey, Bimeks

On a quarterly basis, seasonality on sales becomes apparent. Accordingly, sales show a decline during 1Q and 2Q, and increase during new product launches in 3Q (around September). Quarterly sales showed a 7.7% decline in 1Q14 compared to 1Q13, when the credit card installment limitation was introduced. 2Q14 and 3Q14 sales enhanced by 3.6% and 4.6%, respectively, compared to the same quarters of 2013. Sales on a quarterly basis have recovered, but are still behind 2013 levels. Following the sharp decline in 1Q14, quarterly sales showed slight improvement in 2Q14 and 3Q14.

Exhibit 20: CE quarterly sales (USDbn)

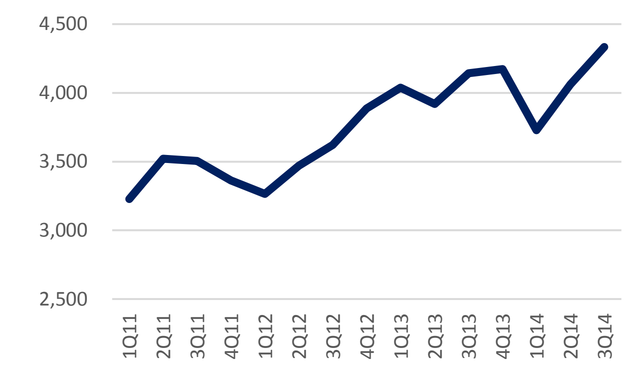
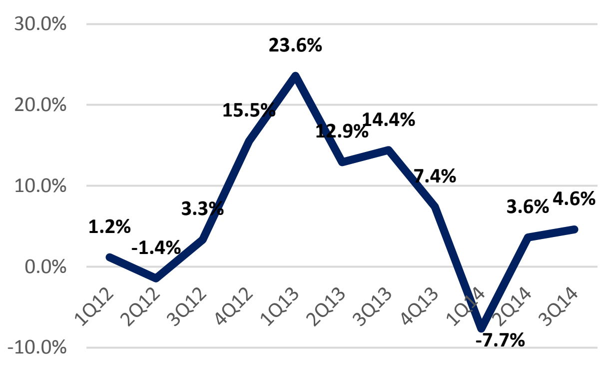


Exhibit 21: CE QoQ growth over 2013



Source: Gedik Investment, GfK Turkey

VALUATION & RATING METHODOLOGY:

Valuation tools employed most frequently are Discounted Cash Flow (DCF) and International Peer Comparison, though other metrics such as Dividend Discount, Historical Relative Valuation and Replacement Value are also used wherever appropriate. Gedik Investment analysts set the target values with a 12-month investment horizon and calculate the potential return of each stock via using only one tool or more than one tool, assigning different weights for each. Our 12-month company rating system includes the following recommendations: **BUY, HOLD** and **SELL.** The ratings are determined as follows:

BUY: If 12-month total return of the stock is expected to exceed BIST100 by more than 20%.

HOLD: If 12-month total return of the stock is expected to perform in-line with BIST100 within a range of +/-20%.

SELL: If 12-month total return of the stock is expected to be below BIST100 by more than 20%.

Rating Methodology	Potential Return (PR)
BUY	PR > +20%
HOLD	-20% <= PR <= +20%
SELL	PR < -20%

Gedik Investment analysts rate the stocks under the views of potential catalysts, triggers, risks and consider the developments at the market, sector and related companies. Gedik Investment analysts screen their ratings on a continuous base, however, they may choose not to alter their recommendation if the potential return of a stock overflows our rating ranges due to fluctuations at the share price.

DISCLAIMER: