

Bimeks

Strength in the face of adversity

We raise our rating for Bimeks shares from Neutral to Outperform. Our updated 12-month target price for Bimeks, of TRY2.55 per share, is higher than our previous target of TRY2.48. We have carried out some revisions to our forecasts based on the updated management guidance that was announced with the 1Q15 results, to take account expected reductions in operating expenses, although the upward revision to our valuation is slightly tempered by a reduction in our forecast for the sector's top-line growth as the sector is expected to grow a little slower rate than had previously been anticipated. This is due to the lingering impact of the credit card restrictions imposed on mobile phone sales in 1Q14, feeble consumer confidence and a weak local currency. The impact of our higher Cost of Equity assumption was also effective.

- **We deem the Bimeks business strategy to be the right approach.** The store network sales are combined with online sales where the stores act as fulfillment centers for online sales. Both channels share the same inventory and logistics and we believe this represents the direction of the sector - the convergence of bricks and mortar retail with online retail, especially in consumer electronics.
- **Geographical optimization of product portfolio through store clusters.** Bulkier items, such as refrigerators, available only in the larger store formats may be purchased by a customer at a smaller store near the larger store through this store cluster system. Also, Bimeks has developed its own in-house software for the algorithmic management of inventory and product pricing.
- **An impressive operating performance despite the slow-down in the sector.** The company's top-line grew 81% YoY thanks to the inorganic impact of the addition of Electroworld and Darty stores and strong like-for-like sale growth. In 2014, like-for-like sales grew 5.1% YoY that was followed by 15% YoY like-for-like growth in 1Q15. The Company's EBITDA margin expanded from 3.9% to 5.4%. The share of higher margin products in the sales mix rose from 18% to 29% in 2014, contributing to the margin expansion.
- **Risks.** The Consumer Electronics Retail sector is sensitive to consumer confidence. Recent developments such as a weaker TRY, heightened political risk and credit card restrictions have negatively impacted consumer confidence, depressing demand for consumer electronics. Any more negative developments with these drivers would further hurt consumer confidence and have an impact on the sector and on the operating performance of Bimeks.

OUTPERFORM

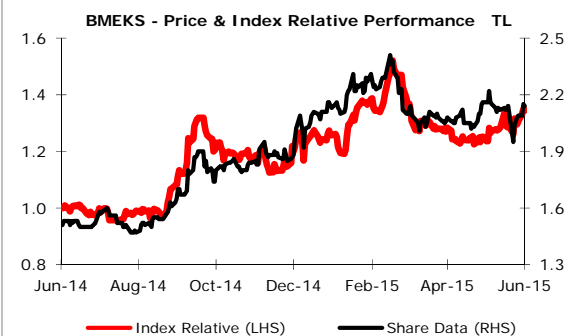
Current price: TRY 2.55
Target price: TRY 2.13

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Stock Data for Bimeks*

Ticker (Reuters, Bloomberg)	BMEKS.IS, BMEKS.TI
Market Cap. (TRY)	256
Number of Shares (mn)	120
Free Float	39%
Daily Avg. Vol. (3 Month, TRYmn)	3.7
Net Debt (2015/03, TRYmn)	174
BIST-100 Index (TRY)	80,713

(* Stock data as of 17 June, 2015)



Stock Performance for Bimeks

	1 W.	1M.	3M.	1Y.
TRY	3.4%	-1.4%	1.4%	41.1%
Index Rel.	2.2%	6.3%	-1.8%	32.9%

Summary Figures for Bimeks (TRYmn)

	2013A	2014A	2015F	2016F
Net Sales	697	1,261	1,477	1,763
EBITDA	27	68	74	104
EBITDA marg.	3.9%	5.4%	5.0%	5.9%
Net Profit	12	9	11	29
EV/Sales	0.4	0.3	0.3	0.3
EV/EBITDA	9.2	5.4	5.1	4.3
P/E	14.1	20.2	18.4	8.9

Shareholding Structure for Bimeks

SPV Bilisim	31.9%
Mehmet Murat Akgiray	18.5%
Free Float & Others	43.6%

INVESTMENT THESIS

In a strong position despite the blows to the sector

Revisions to forecasts and higher cost of equity lead to moderate revision to our TP

We have revised our 12-month target price for Bimeks from TRY2.48 to TRY2.55 and our rating from Neutral to Outperform. We have revised our forecasts based on the updated management guidance that was announced with the 1Q15 results. The upward revision is based on the expectation of higher margins on the back of foreseen reductions in operating expenses, but tempered slightly by a downward revision in the rate of top-line growth, as the sector is expected to grow at a slower pace than had been previously anticipated. This is due to the lingering impact of the credit card restrictions imposed on mobile phone sales in 1Q14, feeble consumer confidence and a weak local currency. The impact of our higher Cost of Equity assumption was also instrumental.

We deem the Bimeks strategy to be the right approach

We believe the Bimeks business strategy to increase online sales with its omnichannel distribution is the right approach. The store network sales are combined with online sales where the stores act as fulfillment centers for the online purchases. Both sales channels use the same inventory and logistics. We believe this represents the future of the sector where we will see a convergence between bricks and mortar retail with online retail, especially in consumer electronics. Rapid geographical expansion has been achieved with 'store-based partnerships'. This is the term Bimeks uses to describe its franchise stores as these allow for quick and flexible expansion in small store formats in less-populated areas and pave the way for increased penetration. This model also limits Bimeks' operating expenses (lower personnel expenses) while keeping investment spending under control. These store-based partnerships also facilitate online sales.

Bimeks employs a strategy of optimizing its product portfolio geographically through store clusters. A customer may purchase a bulkier item, such as a refrigerator, which would normally only be in stock in the larger store formats, from a smaller store near the larger store through this store cluster system. Also, Bimeks has developed its own in-house software for the algorithmic management of inventory and product price.

Strong performance by Bimeks despite the slow-down in the sector

Despite the slow-down in the sector, Bimeks has notched up quite an impressive operating performance. The top-line grew by 81% YoY thanks to the inorganic impact of the addition of the Electroworld and Darty stores and strong like-for-like sales growth. Like-for-like sales grew by 5.1% YoY in 2014, followed by 15% YoY like-for-like growth in 1Q15. The optimization of the product portfolio geographically through store clusters has supported this strong performance. Sales and marketing campaigns and the implementation of an installment payment system without credit cards were also factors driving the sales growth. Online sales have continued to grow

rapidly starting from a small base, more than doubling YoY in 2014 to TRY97mn and growing by another 70% YoY to TRY34mn in 1Q15. We expect the strong like-for-like sales and online sales growth to continue in 2015, and forecast 17% YoY top-line growth. We forecast continued strong top-line growth in 2016-17 at a rate close to the management guidance; beyond that, we forecast a slower rate of top-line growth with a CAGR of 8% in TRY terms between 2018-24.

Profit margin have improved on a better sales mix

Profitability also improved in 2014. The Company's EBITDA margin expanded from 3.9% to 5.4%. The share of higher margin products in the sales mix rose from 18% to 29% in 2014, contributing to the expansion in margins. Bimeks Management is guiding for this share to rise to 33% in 2015. With a weaker sector in 2015 we expect increased competition as well as a slower contribution from higher margin products. These developments should lead to a moderate 5.0% contraction in the EBITDA margin in 2015, based on our assumptions.

Two major acquisitions were completed in 2014; Electroworld and Darty. These acquisitions have given Bimeks a tax shield of TRY8.2mn. We therefore forecast that Bimeks will not pay any corporation tax in 2015 or 2016.

Collaborative agreements with Vestel, Samsung and Vodafone

Bimeks entered a number of collaborative agreements in 2014, which we believe will help support their sales efforts in 2015 and beyond. These include an agreement with Vestel for procurement and display, an agreement with Samsung for a shop-in-shop, and with Vodafone for a co-sale agreement for a smartphone with a new line. We believe Bimeks will continue to undertake such agreements with other vendors going forward, which should continue to support the top-line.

Marketing efforts: bi imza and Hopi

Bimeks began two initiatives to further stimulate sales. These are:

- 1) A campaign entitled "bi imza" that was initiated in March. This bypasses the credit card restrictions imposed in February 2014 and does without the need for bank loans. Bimeks allows customers to pay with installments based on their credit scores (provided by Findeks, a credit bureau established by nine leading Turkish banks). The system includes non-payment insurance. For terms of 12 instalments, the term difference is 25% of the purchase price, rising to 50% for payments over 24 instalments. Bimeks has set a target for 10% of revenues to be financed through this system and the first months of usage confirm this trend.
- 2) Bimeks is the only consumer electronics retailer to join "Hopi", a digital online application for sales campaigns that includes Beymen, Budget, Avis, Turkcell, Migros and BP among its members. As Hopi consumers collect bonus points, the scheme cultivates customer loyalty.

RISKS

The Consumer Electronics Retail sector is sensitive to changes in consumer confidence. Recent developments such as the weaker TRY, heightened political risk and credit card restrictions have negatively impacted consumer confidence that has led to weaker demand for consumer electronics. Any further negative developments would lead to a further deterioration in consumer confidence, which would have an impact on the sector and on the operating performance of Bimeks.

VALUATION & FORECASTS

FORECAST REVISIONS						
	OLD			NEW		
	2015	2016	2017	2015	2016	2017
Revenues	1,601	1,785	1,902	1,477	1,763	2,118
EBITDA	79	88	85	74	104	125
EBITDA Margin	5.0%	5.0%	4.5%	5.0%	5.9%	5.9%
Net Income	12	13	14	11	29	45
Net Margin	0.7%	0.7%	0.7%	0.7%	1.6%	2.1%

Source: Ak Investment

We have carried out some revisions to our forecasts based on the Management's updated guidance announced with the 1Q15 results. Our figures are slightly lower than the guidance for the top-line. We are slightly more pessimistic than the guidance for profit margins for 2015, while also taking a more conservative stance going forward into 2016 and 2017.

Ak Forecasts vs. Management Guidance						
	2015F		2016F		2017F	
	Mgmt	Ak	Mgmt	Ak	Mgmt	Ak
Revenues	1,480	1,477	1,775	1,763	2,130	2,118
Gross Margin	18.0%	17.5%	17.0%	16.5%	16.0%	15.5%
EBITDA Margin	5.3%	5.0%	6.1%	5.9%	6.6%	5.9%
Net Margin	1.0%	0.7%	2.6%	1.6%	3.8%	2.1%

Source: Ak Investment, Bimeks Management

With our revised forecasts, we expect 2015 revenues to grow by 17% YoY in TRY terms with a 5.9% EBITDA margin and 0.7% net margin. For the rest of the forecast period of 2016-24 we forecast a CAGR of 7% in revenues in TRY terms, an average EBITDA margin of 4.6% and an average net margin of 1.0%.

Bimeks - Valuation Summary			
TRYmn	Value	Weight	Weighted Value
DCF	289	50%	144
Median of peers' multiples*	246	50%	123
Est. Equity Value (TLmn)			268
12-month target value (13.5% CoE)			304
12-month Target Share Price (TL)			2.55
Current Share Price (TL)			2.13
Upside / (Downside)			20%
<i>Source: Ak Investment, Bloomberg</i>			
<i>* Using 2015F, 2016F & 2017F PER</i>			

In our equity valuation for Bimeks, we apply equal weightings to the results obtained from DCF analysis and the analysis of peer group multiples, and carry this value 12 months forward with a TL cost of equity of 14.5% (beta = 1). We calculate a DCF equity value of TRY289mn for Bimeks. This compares to a value of TRY246mn derived from international peers and Teknosa's 2015F – 17F P/E multiples. We arrive at an estimated equity value of TRY268mn, which we then inflate at the cost of equity to arrive at our 12-month target equity value of TRY304mn. As such, we arrive at a 12-month target share price of TRY2.55.

Bimeks Consolidated Discounted cash flow (TRYmn)											
	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	TV
Revenues	1,477	1,763	2,118	2,454	2,691	2,938	3,207	3,502	3,642	3,788	3,940
EBIT (Pre non-recurring)	46.8	71.8	86.2	75.3	82.6	90.2	98.5	107.5	75.4	40.5	42.2
-Taxes	(9.4)	(14.4)	(17.2)	(15.1)	(16.5)	(18.0)	(19.7)	(21.5)	(15.1)	(8.1)	(8.4)
Net operating profit after taxes	37.5	57.4	69.0	60.3	66.1	72.2	78.8	86.0	60.3	32.4	33.7
+ Depreciation & amortization	27.0	32.3	38.7	44.9	49.2	53.7	58.7	64.1	66.6	69.3	72.1
- Increase in operating working capital	13.3	(39.6)	(49.3)	67.3	(20.9)	(21.7)	(23.7)	(25.9)	(12.3)	(12.8)	(13.3)
- Net Capital Expenditures	(14.8)	(17.6)	(21.2)	(24.5)	(26.9)	(29.4)	(32.1)	(35.0)	(36.4)	(37.9)	(39.4)
Free cash flow	63.0	32.4	37.2	148.0	67.5	74.8	81.7	89.2	78.2	51.0	53.1
Weighted Average Cost of Capital	12.8%	12.2%	12.2%	13.2%	14.2%	14.0%	13.8%	13.6%	13.5%	16.2%	15.1%
Present value of free cash flow	63.2	29.0	29.6	104.2	41.6	40.4	38.8	37.3	28.8	16.2	14.6
Terminal value free cash flow	224										
Long-term growth rate	7%										
Sum of PV of free cash flow	429										
Present value of terminal value	82										
Enterprise Value	511										
1Q15 Net Debt	223										
Equity value	289										
<i>Source: Ak Investment estimates</i>											

Bimeks WACC Assumptions											
WACC Calculation (TL)	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	TV
Risk free rate	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	8.5%
Equity risk premium	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.0%
Re-levered Beta	1.32	1.32	1.32	1.32	1.32	1.32	1.32	1.32	1.32	1.32	1.32
Cost of Equity (TL)	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	15.1%
Cost of Debt	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	14.2%
after tax cost of debt	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	11.3%
Weight of equity	19%	6%	6%	28%	52%	48%	43%	38%	36%	100%	100%
Weight of debt	81%	94%	94%	72%	48%	52%	57%	62%	64%	0%	0%
WACC	12.8%	12.2%	12.2%	13.2%	14.2%	14.0%	13.8%	13.6%	13.5%	16.2%	15.1%

Bimeks Peers Comparison											
Country	EV/EBITDA			P/E			Sales CAGR	EBITDA Margin			
	2015F	2016F	2017F	2015F	2016F	2017F	2015F-17F	2015F	2016F	2017F	
Arrow Electronics	US	7.3	7.0	6.6	9.3	8.8	8.4	5.5%	4.6%	4.6%	4.7%
Best Buy	US	4.7	4.3	4.2	13.5	12.2	11.6	0.7%	5.3%	5.7%	5.9%
Gamestop	US	5.5	5.2	5.3	11.1	10.1	9.6	1.5%	8.7%	8.9%	8.8%
HHGregg	US	13.3	4.8	2.0	-3.8	-5.2	-29.1	1.3%	0.3%	0.7%	1.6%
M.Video	Russia	1.9	1.6	1.4	9.1	7.6	7.1	14.1%	4.8%	4.8%	4.9%
Gome	China	9.9	8.7	8.1	18.8	16.6	14.6	9.4%	3.1%	3.2%	3.1%
JB Hi Fi	Australia	8.3	7.9	7.6	15.3	14.4	13.9	4.8%	6.4%	6.4%	6.4%
K'S Holdings	Japan	10.9	9.5	9.8	15.2	13.2	14.5	2.9%	5.1%	5.5%	5.4%
Lotte Himart	South Korea	9.8	8.8	8.2	12.3	10.6	9.6	6.5%	6.0%	6.3%	6.4%
United Electronics	Saudi Arabia	13.4	11.9	10.5	18.7	16.4	14.3	9.8%	5.2%	5.4%	5.5%
Teknosa	Turkey	8.2	6.4	5.4	n.m.	92.1	77.9	16.9%	3.0%	3.3%	3.3%
MEDIAN		8.3	7.0	6.6	12.9	12.2	11.6	5.5%	5.1%	5.4%	5.4%
Bimeks	Turkey	5.1	4.3	3.7	18.4	8.9	5.7	19.8%	5.0%	5.9%	5.9%
Premium / Discount		-38%	-38%	-44%	42%	-27%	-51%				

Source: Bloomberg, Ak Investmenrt

BIMEKS Summary Financials (IFRS, TRYmn)

Income Statement	2013	2014	2015F	2016F
Net Sales	697	1,261	1,477	1,763
Cost of Goods Sold	-577	-1,018	-1,218	-1,472
Gross Profit	119	243	258	291
Operating Expenses	-108	-198	-211	-219
EBIT	12	45	47	72
EBITDA	27	68	74	104
Net Other Inc/Exp	19	-2	0	0
Net Finan. Inc/Exp	-16	-34	-36	-43
Profit before Tax&Min. Interest	14	9	11	29
Taxes	-2	0	0	0
Minority Interest	0	0	0	0
Net Profit	12	9	11	29
Nominal Gr. (YoY)	2013	2014	2015F	2016F
Net Sales	41%	81%	17%	19%
EBITDA	-3%	153%	8%	41%
Net Profit	542%	-24%	17%	166%
Margins	2013	2014	2015F	2016F
Gross Profit	17.1%	19.3%	17.5%	16.5%
EBIT	1.7%	3.6%	3.2%	4.1%
EBITDA	3.9%	5.4%	5.0%	5.9%
Net margin	1.7%	0.7%	0.7%	1.6%
Cash Flow Statement	2013	2014	2015F	2016F
Profit before tax	14	9	11	29
Depreciation	15	23	27	32
Changes in WC	-49	-110	13	-40
Operating Cash Flow	-20	-78	51	21
Capex	-14	-28	-15	-18
Change in debts	66	104	-16	48
Dividends paid	0	0	0	0
Other	-30	0	-34	-19
Investing & Financing Cash Flow	22	76	-65	11
Cash-beginning of per.	68	70	68	54
Cash-end of period	70	68	54	86

Balance Sheet	2013	2014	2015F	2016F
Current Assets	413	522	580	716
<i>Cash & Equivalents</i>	70	68	54	86
<i>Trade Receivables</i>	25	28	61	72
<i>Inventory</i>	295	399	434	524
L/T Assets	110	121	133	136
<i>Tangible Assets</i>	57	73	83	86
<i>Intangible Assets</i>	50	46	47	47
TOTAL ASSETS	522	643	713	853
S/T Liabilities	370	370	442	532
<i>Financial Debt</i>	134	138	129	156
<i>Trade Payables</i>	224	220	300	363
L/T Liabilities	18	124	116	138
<i>Financial Debt</i>	11	111	104	125
Shareholders' Equity	135	148	155	183
Minority Interest	0	0	0	0
TOT.LIA.&SH.EQU.	522	643	713	853
Key Metrics	2013	2014	2015F	2016F
W.Capital days	-18	-37	-35	-22
Capex/sales	2.0%	2.2%	1.0%	1.0%
Net debt (TLmn)	75	182	180	195
Net debt / equity	0.56	1.22	1.16	1.06
Net Debt / EBITDA	2.80	2.67	2.43	1.87
ROA (%)	2.3%	1.6%	1.6%	3.7%
ROIC (%)	5.6%	13.3%	11.3%	16.1%
ROE (%)	9.7%	6.6%	7.2%	17.1%
Dividend payout (%)	0.0%	0.0%	0.0%	0.0%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%
Effect.tax rate (%)	15.1%	-2.6%	0.0%	0.0%
Valuation	2013	2014	2015F	2016F
EV/Sales	0.4	0.3	0.3	0.3
EV/EBITDA	9.2	5.4	5.1	4.3
PE	14.1	20.2	18.4	8.9
FCF yield (%)	-23%	-43%	32%	13%

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