Gedikinvestment

# Bimeks

## The Best Electronics Retailer

30 March 2016

**Superb management with proactive approach.** Under the meticulous and superior watch of the Akgiray family, Bimeks is growing prudently. The management acts proactively in finding ways to cope with sector-related developments, while the competition lacks its systems and speedy decision making. Bimeks is the most successful company in the sector to make the transition to an omni-channel system, whereby online and offline sales are regarded as inseparable. Hence, inventory/sales/pricing throughput is exceptional and is the main reason for Bimeks being the most profitable amongst its peers.

**High responsiveness and superior systems for inventory, pricing, and employee incentives.** A real time inventory management system for all inventory regardless of the sale channel (online or offline), which uses stores as warehouses, algorithmic product pricing dependent on dozens of variables, and decisions on product display all work in tandem with one another. In addition, employees are rewarded or fined through a system based on both individual and store performance, including service and complaints. All of this is made possible by the "retail engineering" approach of the management, which improves and extends the system's impact to cover all operations.

**The game changer for the next three years: improvement in net working capital.** Expected improvements in receivable and inventory days due to less focus on Bi'imza and the impact on inventory management systems should help in reducing working capital to sales from 22% to 19%, net debt to equity from 1.9% to 1.7%, and net debt to EBITDA from 3.3% to 2.7% this year, compared to 2015. Our estimates for these ratios are 17%, 1.1%, and 1.9%, respectively, for 2018.

**Maintaining "BUY" rating with a DCF-derived 12m target price of TL2.22/share, 28% upside potential.** Currently, the stock trades at 0.26x EV/Sales, 9.4x P/E, and 4.5 EV/EBITDA multiples on our 2016 estimates, implying a respective 11% premium, 21% discount, and 27% discount compared to its global peers. Whilst the discount does not appear to be substantial to its peers, Bimeks' growth outlook is twice as good.

| Financials (TLmn) | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| Revenues | 1,261 | 1,572 | 1,910 | 2,327 | 2,727 |
| EBITDA | 68 | 89 | 110 | 133 | 152 |
| Net Income | 9 | 9 | 22 | 37 | 51 |
| Gross Margin | 19.3% | 17.4% | 16.7% | 16.1% | 15.6% |
| EBITDA Margin | 5.4% | 5.7% | 5.7% | 5.7% | 5.6% |
| Net Income Margin | 0.7% | 0.6% | 1.2% | 1.6% | 1.9% |
| P/E (x) | 21.6 | 26.9 | 9.4 | 5.7 | 4.0 |
| P/BV (x) | 1.3 | 1.6 | 1.2 | 1.0 | 0.8 |
| EV/EBITDA (x) | 5.6 | 6.1 | 4.5 | 3.7 | 3.3 |
| EV/Sales (x) | 0.30 | 0.35 | 0.26 | 0.21 | 0.18 |
| ROE | 6.2% | 6.1% | 12.5% | 17.2% | 19.4% |
| Dividend Yield | 0.0% | 1.0% | 0.0% | 0.0% | 0.0% |

*Source: Bimeks, Gedik*

**BUY**

**Company Update**

| Stock Data | |
|---|---|
| Sector | Electronics Retail |
| Bloomberg / Reuters Code | BMEKS.TI/BMEKS.IS |
| Price (TL) | 1.73 |
| Target Price (12M, TL) | 2.22 |
| Potential Return | 28% |
| 52-week Range (TL) | 1.57-2.39 |
| Market Cap (TLmn) | 206 |
| Enterprise Value (TLmn) | 500 |
| Floating Market Cap (TLmn) | 79 |
| Shares Out (mn) | 120 |
| Effective Free Float | 38% |
| Foreign Ownership (% of free float) | |
| Current | 14% |
| 3 months ago | 20% |

| Volume - Period | 1W | 1M | 3M | 1Y |
|---|---|---|---|---|
| Avg-Number of Shares traded (000) | 1,448 | 2,193 | 1,320 | 1,278 |
| Avg-Volume (TL000) | 2,486 | 3,758 | 2,243 | 2,548 |
| Price Range (TL/share) | 1.69-1.75 | 1.64-1.78 | 1.57-1.92 | 1.57-2.39 |

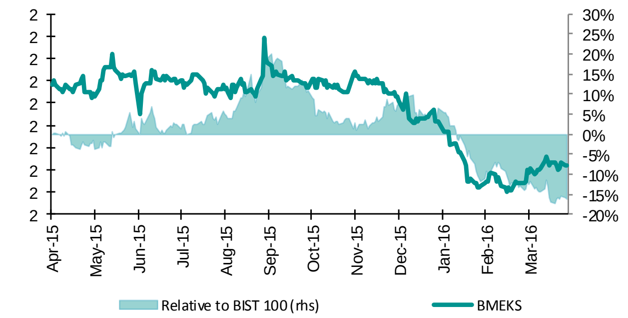
| Performance | 1M | 3M | 6M | 12M |
|---|---|---|---|---|
| Absolute | 5% | -10% | -17% | -15% |
| Relative to BIST100 | -4% | -22% | -25% | -17% |

| Shareholder Structure | |
|---|---|
| SPV Bilisim | 32% |
| Akgiray Family | 21% |
| Other | 47% |
| Free Float | 38% |

**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 totalling 30,000 SKUs. Bimeks' operations are carried out by 138 stores. The retailer uses an omni-channel model combining online and offline sales. Its market share among technology retailers is estimated to have reached 17% in 2015.

**EXHIBIT 1: Price Performance**





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| Consolidated Income Statement (TLmn) | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| Revenues | 1,261 | 1,572 | 1,910 | 2,327 | 2,727 |
| Online Revenues | 97 | 188 | 286 | 386 | 463 |
| COGS | 1,018 | 1,298 | 1,592 | 1,952 | 2,302 |
| Gross Profit | 243 | 274 | 318 | 375 | 425 |
| Operating Expenses | 198 | 208 | 227 | 261 | 293 |
| Operating Income | 45 | 67 | 91 | 114 | 132 |
| EBITDA | 68 | 89 | 110 | 133 | 152 |
| Other non-operating Income, Net | -3 | -10 | -13 | -15 | -18 |
| Financial Income, Net | -34 | -52 | -56 | -53 | -50 |
| Taxes Paid | 0 | -2 | 1 | 9 | 13 |
| Reported Net Income | 9 | 9 | 22 | 37 | 51 |
| Reported EPS | 0.03 | 0.03 | 0.07 | 0.12 | 0.17 |
| DPS | 0.00 | 0.02 | 0.00 | 0.00 | 0.00 |

| Growth | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| Revenues | 81% | 25% | 21% | 20% | 17% |
| EBITDA | 153% | 31% | 23% | 21% | 14% |
| Net Income | -24% | 1% | 135% | 66% | 40% |

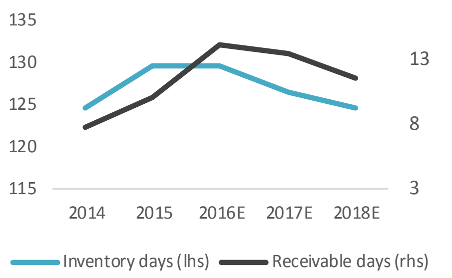
| Consolidated Balance Sheet (TLmn) | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| Cash & Marketable Securities | 68 | 66 | 73 | 66 | 57 |
| Accounts Receivables | 28 | 59 | 89 | 83 | 90 |
| Inventory | 399 | 522 | 565 | 677 | 785 |
| Plant, Property & Equipment, Net | 73 | 67 | 62 | 62 | 62 |
| Intangible Assets | 46 | 47 | 47 | 47 | 47 |
| Other Assets | 29 | 24 | 24 | 29 | 35 |
| Total Assets | 643 | 784 | 860 | 964 | 1,076 |
| Financial Loans | 231 | 289 | 362 | 357 | 347 |
| Account Payables | 220 | 242 | 283 | 347 | 410 |
| Provisions | 7 | 9 | 11 | 14 | 16 |
| Other Liabilities | 18 | 22 | 27 | 33 | 38 |
| Shareholders' Equity | 148 | 154 | 176 | 212 | 264 |
| Net Debt (Cash) | 182 | 294 | 290 | 291 | 290 |

| Cash Flow Summary (TLmn) | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| Profit Before Tax | 9 | 7 | 23 | 46 | 64 |
| Depreciation | 23 | 22 | 19 | 19 | 20 |
| Change in WCR | 110 | 131 | 32 | 42 | 53 |
| Taxes | 0 | 2 | -1 | -9 | -13 |
| CAPEX | -37 | -18 | -14 | -19 | -20 |
| Dividend Paid | 0 | 0 | -2 | 0 | 0 |
| Rights Issue | 0 | 0 | 0 | 0 | 0 |
| Change in Borrowing | 104 | 110 | 3 | -5 | -10 |
| Cash Accumulation During the Year | 68 | 66 | 73 | 66 | 57 |
| Free Cash Flow | -88 | -73 | 27 | 27 | 25 |

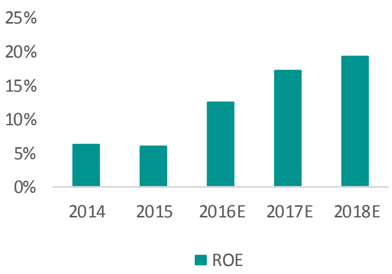
| Key Financial Ratios | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| ROE | 6.2% | 6.1% | 12.5% | 17.2% | 19.4% |
| EBITDA Margin | 5.4% | 5.7% | 5.7% | 5.7% | 5.6% |
| Net Margin | 0.7% | 0.6% | 1.2% | 1.6% | 1.9% |
| Net debt/Equity (x) | 1.2 | 1.9 | 1.6 | 1.4 | 1.1 |
| Net debt/EBITDA (x) | 2.7 | 3.3 | 2.6 | 2.2 | 1.9 |
| ST borrowing/T. Borrowings | 55% | 67% | 64% | 62% | 59% |
| Equity/Total Assets | 23% | 20% | 20% | 22% | 25% |
| Current Ratio (x) | 1.4 | 1.3 | 1.4 | 1.4 | 1.5 |
| Pay-out Ratio | 0% | 22% | 0% | 0% | 0% |

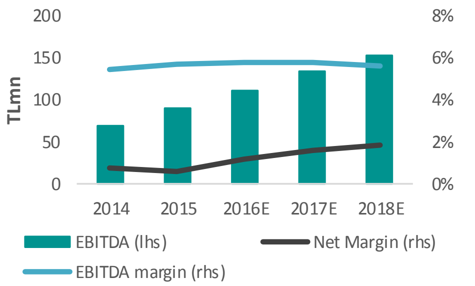
*Source: Bimeks, Gedik Investment*

## Working Capital Days

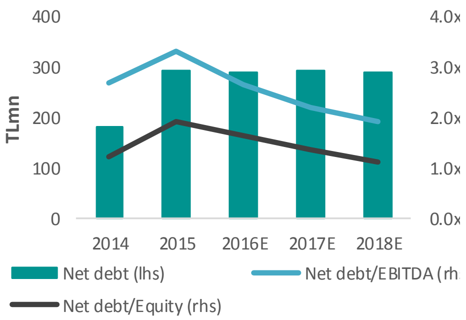



## Profitability & Margin Trends




## Solvency



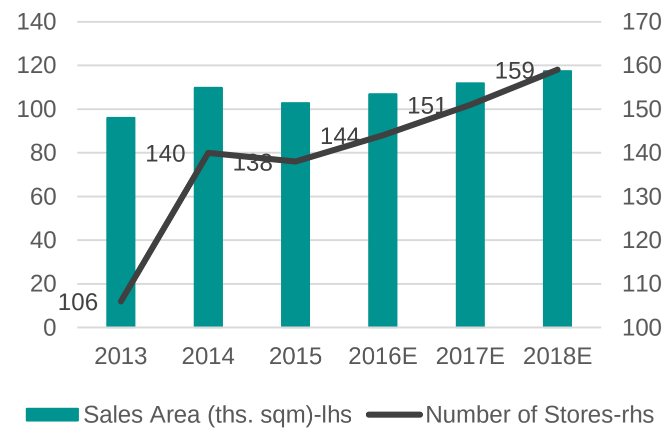
**We maintain our "BUY" rating on Bimeks with a DCF-derived 12m target price of TL2.22/share, implying 28% in upside potential.** Currently, the stock trades at 0.26x EV/Sales, 9.4x P/E, and 4.5 EV/EBITDA multiples on our 2016 estimates, implying a respective 11% premium, 21% discount, and 27% discount compared to its global peers. We believe hands-on management and superior systems will enable future improvements in opex/sales and support profitability in a declining gross margin environment (Exhibit 4). New store additions and sales area growth is to be kept minimal to achieve this (Exhibit 3).

There is a further 6% upside potential that could be realized if Bi'imza receivables can be replaced with a revenue stream that does not cause strain on the working capital needs of the company (Exhibit 2). The company is currently working on ways to reduce the impact of Bi'imza receivables on the balance sheet by selling them.

**EXHIBIT 2: Sensitivity to Bi'imza**

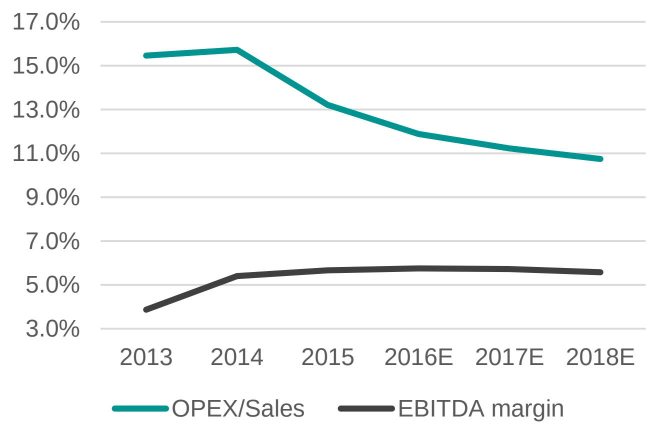
| | With Bi'imza | Without Bi'imza |
|---|---|---|
| Target Price (TL/share) | 2.22 | 2.35 |
| Cash Flow (TLmn, 2016) | 27 | 58 |

**EXHIBIT 3: Sales area growth and store additions limited**




*Source: Gedik Investment, Bimeks*

**EXHIBIT 4: Lower OPEX/Sales supports EBITDA margin**



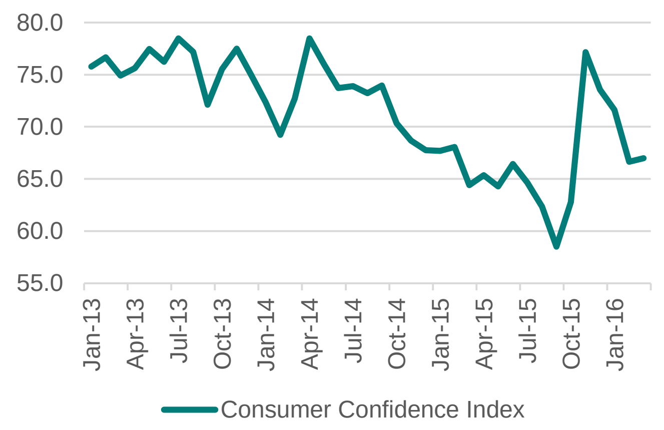

*Source: Gedik Investment, Bimeks*

**Superb management with proactive approach.** Under the meticulous and superior watch of the Akgiray family, Bimeks is growing prudently. The management acts proactively in finding ways to cope with sector-related developments, while the competition lacks its systems and speedy decision making. Bimeks is the most successful company in the sector to make the transition to an omni-channel system, whereby online and offline sales are regarded as inseparable. Hence, inventory/sales/pricing throughput is exceptional and is the main reason for Bimeks being the most profitable amongst its peers.

An example of this proactive approach is the Bi'imza payment system, enabling payment in installments, which was introduced during the first quarter of 2015 following government-led credit card installment limitations, and for which Bimeks launched the first of its kind. The Bi'imza system does not require credit cards or bank loans and uses the paytrust system, relying on the credit score of customers. Products are then sold at an interest premium and Bimeks insures the receivables. The company continues to introduce additional revenue streams aimed at keeping sales area additions to a minimum, such as B2B sales and pre-approved consumer loans through agreement with Isbank (first in the sector), introduced in 2015. Currently, an "electronic tag" system is under development, and that will enable for algorithmic pricing on the offline channel (currently effective on the online sales channel only). B2B2C sales began last year, meaning the sale to customers directly through suppliers' inventory, thus improving the working capital needs of Bimeks. Moreover, the management has started renewing rental contracts for its stores based on a certain rent/sales ratio, and is looking at a sales area reduction or closure for stores that fall short of this ratio to improve opex/sales.

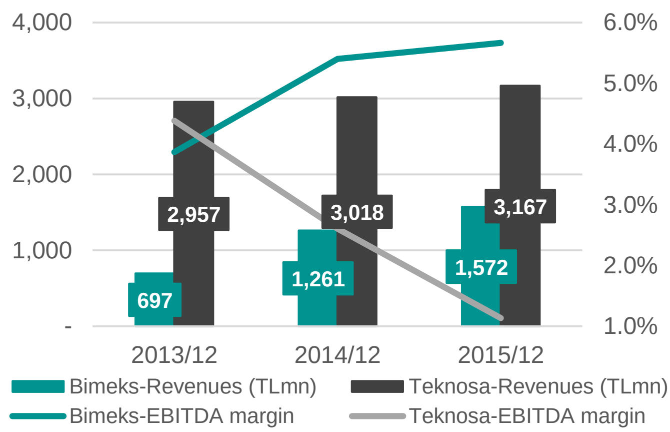
As a result of having a successful management team, and despite declining consumer confidence in 2015 (Exhibit 5), Bimeks stood rock solid as it continued to deliver revenue growth as well as an improved EBITDA margin (Exhibit 6).

**EXHIBIT 5: Consumer confidence index weak in 2015**




*Source: Gedik Investment, Bimeks*

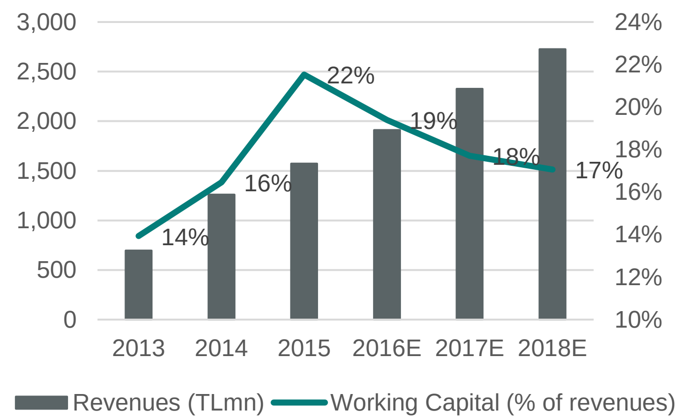
**EXHIBIT 6: Bimeks vs. Teknosa growth and profitability**




*Source: Gedik Investment, Bimeks*

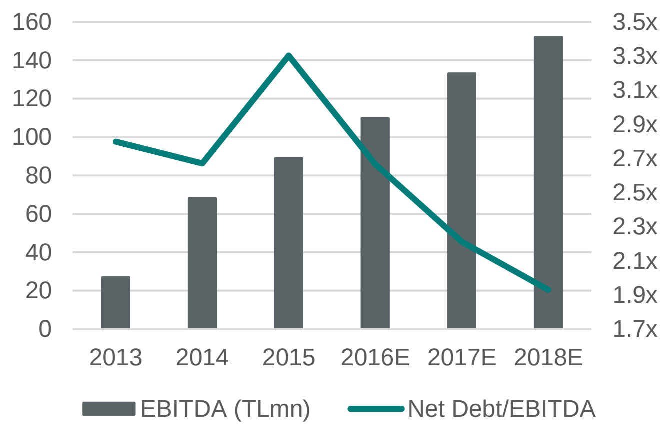
**High responsiveness and superior systems for inventory, pricing, and employee incentives.** A real time inventory management system for all inventory regardless of the sale channel (online or offline), which uses stores as warehouses, algorithmic product pricing dependent on dozens of variables, and decisions on product display all work in tandem with one another. In addition, employees are rewarded or fined through a system based on both individual and store performance, including service and complaints. All of this is made possible by the "retail engineering" approach of the management, which improves and extends the system's impact to cover all operations. As a result, operations continue with an effective omni-channel approach combined with strict cost measures.

**EXHIBIT 7: Net working capital/Sales expected to decline**




*Source: Gedik Investment, Bimeks*

**EXHIBIT 8: Net debt/EBITDA expected to decline**

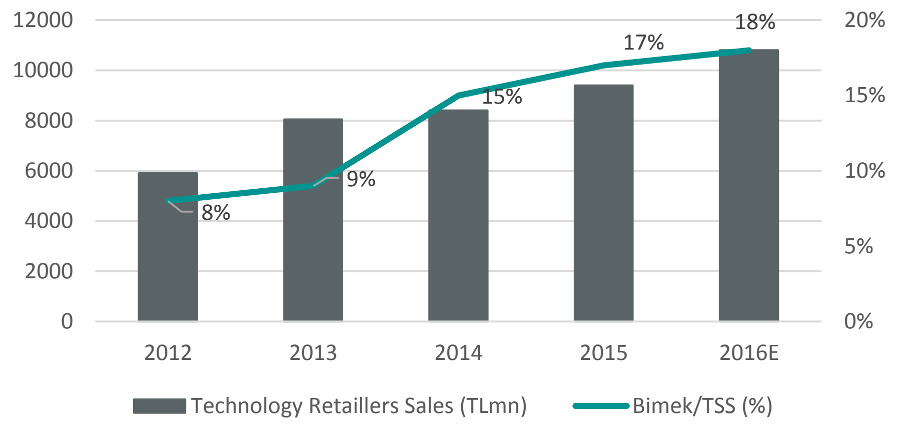



*Source: Gedik Investment, Bimeks*

**The game changer for the next three years: improvement in net working capital.** Expected improvements in receivable and inventory days due to less focus on Bi'imza (roughly half of receivables and 5% of total sales belong to Bi'imza) and the impact on inventory management systems should help in reducing working capital to sales from 22% to 19% (Exhibit 7), net debt to equity from 1.9% to 1.7%, and net debt to EBITDA from 3.3% to 2.7% this year (Exhibit 8), compared to 2015. Our estimates for these ratios are 17%, 1.1%, and 1.9%, respectively, for 2018. Working capital/sales ratio is seen declining from 22% in 2015 to 17% in 2018.

**Bimeks continues to gain market share as a result of its business model and strategy.** Bimeks has increased its market share from 9% in 2013 to 15% with the acquisition of Darty and Electroworld stores in 2014 as seen in Exhibit 9. In 2015, Bimeks was able to gain further market share, at a time of low consumer confidence and sector related challenges such as credit card limitations.

**EXHIBIT 9: Bimeks' market share among technology retailers**




*Source: Gedik Investment, Bimeks,GfK Research*

## Risks

**Product pricing getting more and more difficult for electronic retailers, hurting gross margins.** Consumers are getting increasingly aware of electronic product prices with the help of the internet, where the cheapest price of a certain product may easily be found. This puts a strain on electronic retailers as they compete with each other to provide the lowest price, which deteriorates the gross margin of the players in the sector.

**Consumer confidence has not recovered fully.** The Turkish consumer confidence index is fluctuating at the 67-70 level as of 1Q16, down from the short-lived high of 77 in December 2015. Prolonged periods of low consumer confidence may lower consumer spending on electronic goods and hurt the electronic retailer's top line.

**Intensified competition from peers has already pushed some players out of the market.** Although Bimeks is the most profitable amongst its peers, the risk of new entries to the market and thus increasing competition may have a negative impact on Bimeks.

Clearly, operating challenges apart, these events also create a risk of additional burden on working capital, and the biggest challenge for the sector is managing this item effectively.

## Valuation

**Our valuation of Bimeks is DCF-driven at TL267mn, TL2.22/share, suggesting a 28% upside.** We assumed a cost-of-equity of 16%, derived from a risk-free rate of 10.5%, and an equity-risk premium of 5.5%, while our three-year beta figure was 1x. A terminal growth rate of 4% was used. WACC hovers around 12.3% throughout the valuation period. Currently, the stock trades at 0.26x EV/Sales, 9.4x P/E, and 4.5 EV/EBITDA multiples on our 2016 estimates, implying a respective 11% premium, 21% discount, and 27% discount compared to its global peers. Whilst the discount does not appear to be substantial compared to its peers', Bimeks' growth outlook is twice as good.

**EXHIBIT 10: Bimeks – DCF Valuation**

| (TLmn) | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|---|---|---|---|---|
| **Number of Stores** | **144** | **151** | **159** | **166** | **172** | **177** | **181** | **184** | **186** | **187** |
| **Revenues** | **1,910** | **2,327** | **2,727** | **3,110** | **3,485** | **3,789** | **4,098** | **4,411** | **4,727** | **5,043** |
| Growth% | 21% | 20% | 17% | 14% | 12% | 9% | 8% | 8% | 7% | 7% |
| **EBITDA** | **110** | **133** | **152** | **165** | **176** | **180** | **193** | **206** | **219** | **232** |
| Growth% | 23% | 21% | 14% | 8% | 7% | 2% | 7% | 7% | 6% | 6% |
| **EBITDA Margin** | **5.7%** | **5.7%** | **5.6%** | **5.3%** | **5.0%** | **4.7%** | **4.7%** | **4.7%** | **4.6%** | **4.6%** |
| EBIT | 91 | 114 | 132 | 144 | 154 | 157 | 170 | 186 | 200 | 215 |
| Unlevered Taxes | 18 | 23 | 26 | 29 | 31 | 31 | 34 | 37 | 40 | 43 |
| Effective Tax Rate | 20% | 20% | 20% | 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| **NOPAT** | **73** | **91** | **106** | **115** | **123** | **126** | **136** | **149** | **160** | **172** |
| NOPAT Margin | 3.8% | 3.9% | 3.9% | 3.7% | 3.5% | 3.3% | 3.3% | 3.4% | 3.4% | 3.4% |
| Capital Expenditure | 14 | 19 | 20 | 20 | 20 | 20 | 20 | 19 | 19 | 18 |
| Depreciation | 19 | 19 | 20 | 21 | 22 | 22 | 23 | 20 | 19 | 17 |
| Change in Net WC | 32 | 42 | 53 | 56 | 56 | 52 | 51 | 52 | 52 | 52 |
| Credit Card Expenses | 19 | 23 | 27 | 30 | 33 | 36 | 39 | 41 | 43 | 46 |
| **Free Cash Flow** | **27** | **27** | **25** | **30** | **35** | **40** | **49** | **56** | **64** | **73** |
| WACC: | 12.3% | 12.3% | 12.3% | 12.3% | 12.3% | 12.3% | 12.3% | 12.4% | 12.4% | 12.5% |
| Discount Factor: | 1.0 | 0.9 | 0.8 | 0.7 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 |
| **DCF** | **26** | **23** | **20** | **20** | **22** | **22** | **24** | **24** | **25** | **25** |
| **Sum of DCF** | **230** | | | | | | | | | |
| Perpetuity Growth Rate | 4.0% | | | | | | | | | |
| Terminal Value | 889 | | | | | | | | | |
| **PV of Terminal Value** | **303** | | | | | | | | | |
| **Enterprise Value** | **534** | | | | | | | | | |
| Net Debt (cash) (2015) | 296 | | | | | | | | | |
| **Present Value** | **238** | | | | | | | | | |
| **12M Target Value** | **267** | | | | | | | | | |

*Source: Gedik Investment*

**EXHIBIT 11: Peer Multiples for Bimeks**

| | EV/EBITDA | | P/E | | EV/Sales | | Mcap |
|---|---|---|---|---|---|---|---|
| | 2016E | 2017E | 2016E | 2017E | 2016E | 2017E | (USDmn) |
| **Emerging Market Peers** | | | | | | | |
| JB HI-FI | 9.2x | 8.4x | 15.7x | 14.5x | 0.6x | 0.6x | 1,717 |
| K's Holdings | 8.4x | 7.5x | 12.2x | 9.9x | 0.5x | 0.4x | 2,130 |
| United Electronics | 6.2x | 5.7x | 9.5x | 8.7x | 0.2x | 0.2x | 249 |
| Teknosa | 4.2x | 3.2x | 51.2x | 24.7x | 0.1x | 0.1x | 233 |
| **Developed Market Peers** | | | | | | | |
| Arrow Electronics | 6.9x | 6.3x | 9.4x | 8.8x | 0.3x | 0.3x | 5,686 |
| Best Buy | 4.2x | 4.2x | 11.9x | 10.9x | 0.2x | 0.2x | 10,147 |
| Conn's Inc | n.a. | n.a. | 13.0x | 9.1x | n.a. | n.a. | 505 |
| Ingram Micro | 5.6x | 4.6x | 11.6x | 10.7x | 0.1x | 0.1x | 5,380 |
| Darty | 6.2x | 5.3x | 21.3x | 16.6x | 0.2x | 0.2x | 972 |
| Esprinet | 4.2x | 3.5x | 11.9x | 10.7x | 0.1x | 0.1x | 458 |
| Lotte Himart | 6.7x | 5.9x | 9.8x | 8.6x | 0.4x | 0.3x | 1,048 |
| **Median** | **6.2x** | **5.5x** | **11.9x** | **10.7x** | **0.2x** | **0.2x** | |
| **BMEKS*** | **4.5x** | **3.8x** | **9.4x** | **5.7x** | **0.3x** | **0.2x** | **208** |
| **BMEKS's Premium to Global Peers** | **-27%** | **-31%** | **-21%** | **-47%** | **11%** | **-5%** | |

**Based on Gedik Investment forecasts*

*Source: Gedik Investment*

## 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/-5%.

**SELL:** If 12-month total return of the stock is expected to be below BIST100 by more than 5%.

| Rating Methodology | Potential Return (PR) |
|---|---|
| BUY | PR > +20% |
| HOLD | -5% <= PR <= +20% |
| SELL | PR < -5% |

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 basis; however, they may choose not to alter their recommendation if the potential return of a stock overflows our rating ranges due to fluctuations in the share price.

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